Annual Report 1986

INSPIRATION RESOURCES CORPORATION

"Our First Year of Profit"

Inspiration Resources Corporation is a diversified natural resources company, which provides products and services for agriculture, mines base and precious metals and coal, and leases equipment. Its subsidiaries include Terra International, Inc., Hudson Bay Mining and Smelting Co., Limited, Inspiration Consolidated Copper Company, Inspiration Coal Inc., Inspiration Gold Incorporated and Inspiration Leasing Inc.

Contents

1986 Highlights

Agribusiness

- Improved productivity at our distribution outlets.
- Formed a new joint venture company to develop and sell seeds produced from biotechnology.
- Signed a major exclusive distributorship agreement to market fertilizers.

Mining

- Signed new labor agreements that cut wages and benefits at our U.S. copper unit by 23 percent.
- Moved U.S. copper production to low-cost leach extraction method.
- Increased ownership in a Nevada gold property and began production.
- Began offshore gold mining operations at Nome, Alaska.
- Continued to explore a high-grade nickel deposit in northern Manitoba.
- Received $13.3 million from the sale of a royalty interest in a Utah mining property.

Financial

- Purchased a company from Merrill Lynch & Co., Inc. that manages a portfolio of high-quality leases.
- Sold several leased assets to eliminate most of the debt we incurred in the purchase of the leasing subsidiary.

Inspiration Resources Corporation
Net Income (Loss) 1983-1986
(in millions)

Inspiration Resources Corporation
1986 Revenues - $1.12 Billion

Agricultural Products & Services
$636 Million
Crop Protection Products
Fertilizers
Seeds

Base Metals‡
$393 Million
Copper
Zinc

Gold†

Coal
$91 Million
Thermal
Metallurgical

Leasing*
Leveraged
Direct Financing
Tax Benefit
Joint Venture
Equipment

* Unconsolidated subsidiary; income reported on an equity basis.
† New operations started up in the latter half of 1986.
‡ Includes gold and silver produced from base metals concentrates.

To Our Stockholders:

In our 1985 annual report, I expressed confidence that Inspiration Resources was "better poised to meet the challenges facing it and to pursue its goals of profitability and long-term growth."

Twelve months later, I am pleased to report that Inspiration Resources reported a net profit of $38 million in 1986, despite continuing depressed prices for many products it produces and distributes. The profit was the first since our reorganization in 1983 and marked a dramatic improvement from the $291 million net loss reported in 1985. The improved results primarily reflected one-time gains from the sale of leased assets and a royalty interest, reduced operating costs at our mining operations and reduced depreciation charges. The improvement was offset partially by reduced earnings at our agribusiness subsidiary.

Newly Acquired Leasing Unit Provides Substantial Income

We achieved a major corporate goal in 1986 with our purchase in October of Merrill Lynch Leasing Inc., a subsidiary of Merrill Lynch & Co., Inc., for approximately $98 million (net) in cash. The unit, which we renamed Inspiration Leasing Inc. (ILI), provides us with the reliable source of earnings and cash flow we have long sought. In addition, ILI's contributions will be enhanced by our ability to offset taxable earnings flowing from the leases with our tax net operating loss carryforward, which totaled approximately $385 million at the end of 1985.

We were able to eliminate most of the indebtedness we incurred when we acquired the leasing unit by selling certain of ILI's leased assets to a subsidiary of U S WEST, Inc. for approximately $91 million in cash. The sale contributed substantially to our cash flow and profitability in 1986.

Further Cost Reductions Achieved

In 1986, the Corporation made further progress in its efforts to reduce operating costs.

We reduced our cash cost for producing copper at our North American mines to below 60 cents per pound. Inspiration Consolidated Copper Company (ICC) began producing all ICC-mined copper using the less costly leach extraction method and negotiated new three-year labor agreements that reduced average hourly wages and benefits by 23 percent. Cost of living adjustments were eliminated and ICC gained important concessions in local work rules.

Hudson Bay Mining and Smelting Co., Limited (HBMS) negotiated concessions from suppliers and achieved more efficient usage of various materials and services. HBMS seeks to reduce future financing requirements by forming a joint venture for the continued exploration and possible future development of its high-grade nickel ore discovery at Namew Lake, Manitoba.

Inspiration Coal Inc., which posted improved earnings despite unfavorable market conditions, reduced production costs at both its contract and Company-owned mines and initiated a major administrative reorganization.

All our subsidiaries realized cost savings from the substantial drop in energy prices during 1986.

Given the prospect of continued depressed prices for our products, we unfortunately had to reduce further the workforce at all our operations. Over 600 employees at IRC subsidiaries were laid off in 1986, and the census at the IRC Corporate Office was reduced by over 20 percent. We deeply regret the layoffs and greatly appreciate the many contributions those affected employees made to the Corporation over the years.

Agribusiness Results Affected By Farm Bill

Agribusiness operations of our Terra International subsidiary were adversely affected by the U.S. Government's 1986 acreage reduction program, as well as by the continuance of farm closings, consolidations among producers and distributors, and poor export demand.

Although we expect these difficult operating conditions to continue or even worsen in the next few years, we believe they present opportunities as well as challenges to Terra. The Company is moving aggressively to improve its cost position, primarily by closing or consolidating farm service centers and reducing overhead. Terra also expects to improve its profit margins by upgrading its product mix. The Company plans to sign exclusive distribution agreements and increase sales of higher margin private label products.

Terra expects to strengthen further its position as the nation's leading independent distributor of seed as well as secure a "window" on the market for agricultural products developed through biotechnology via a joint venture marketing agreement it signed in 1986 with Molecular Genetics Inc.

Establishing A North American Gold Company

One of our operational goals is to apply our considerable technical and managerial experience in the mining business to build a low-cost North American gold company with substantial annual production by the end of 1990. Last year, we started up two operations that we believe will contribute significantly to that goal.

Late in 1986, the Austin Gold Venture, in which Inspiration Gold Incorporated (IGI) holds a 72.5 percent interest, poured its first gold bars at the Austin, Nevada mining and milling facility. IGI's share of gold production is expected to exceed 33,000 ounces annually. Although the mine has a current life expectancy of only four years, exploration work in the area could yield additional reserves.

The *Bima,* one of the world's largest mining vessels, began recovering gold from offshore deposits at Nome, Alaska in August. The vessel was modified after the completion of a brief season in 1986. Given the short dredging season and unpredictable weather at Nome, we expect annual gold production from the *Bima* to average approximately 40,000 ounces.

Inspiration also participates in several joint ventures in Canada and owns a 50 percent stake in newly formed Mingold Resources. Mingold will conduct exploration activities, principally in Ontario, Quebec and British Columbia, and also will invest in other attractive exploration companies.

One of our most promising exploration projects in Canada is located near Farley Lake, Manitoba, where units of the Province of Manitoba and IRC have encountered combined proven and probable reserves of more than 1.2 million tons at an average grade of 0.18 ounces of gold per ton. Additional drilling continues at the site, which could be developed as an open pit mine.

Debt Reduction A Primary Goal

While we are pleased with our improved results, we realize that we must reduce indebtedness to be able to pursue effectively our plans to build long-term value in selected businesses. Our primary financial goal is to reduce our bank debt by $64 million to a level of approximately $100 million by the end of 1988. Plans for achieving that goal include the generation of positive cash flow from existing operations, the sale of assets and further reduction of working capital at all our operations.

We are not depending on any sustained improvement in base metals prices to ensure our long-term profitability, since worldwide supply-demand balances for copper and zinc are expected to improve only modestly at best. We are, however, committed to our North American resource-related businesses and expect to record operating earnings and positive cash flow in 1987.

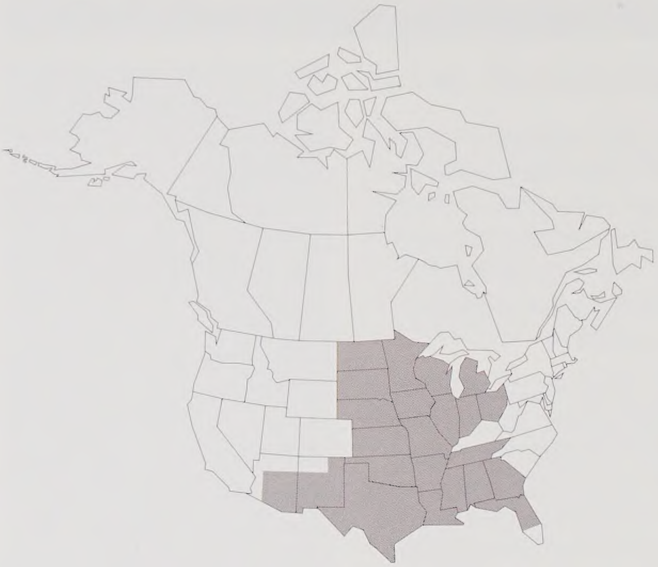
I thank William T. Dible, former President and Chief Executive Officer of Terra International, and Adrian M. Doull, Executive Vice President and Chief Operating Officer of the Corporation, for their many contributions. Mr. Dible has retired and Mr. Doull is leaving the Corporation to pursue business interests in Europe.

I also appreciate greatly our employees' hard work and sacrifices, especially during this difficult period. I expect that the continued improvement of IRC's operations will benefit both them and you.

R. F. Richards

Reuben F. Richards
Chairman of the Board,
President, and Chief
Executive Officer

March 10, 1987



Terra Product Distribution Network

Terra International, Inc. supplies products and services to dealers and growers across the Midwest, South and Southeast from its network of farm service centers, manufacturing and formulation plants, terminals and storage facilities.

Agribusiness

Terra International, Inc.

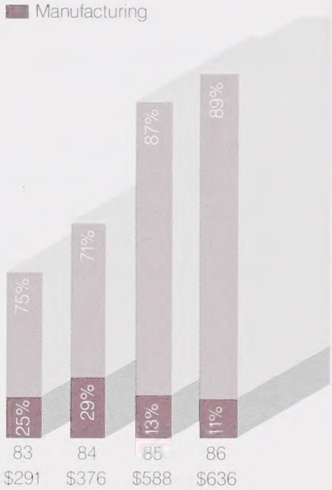
In 1986, Terra International, Inc. reported an operating loss of $1.2 million on total revenues of $636.1 million, compared with operating income of $16.0 million on total revenues of $588.1 million in 1985. Terra's lower 1986 results primarily reflected the continued depressed state of the U.S. farm economy and the impact of the government's acreage reduction program. Approximately 16 million fewer acres of major feedgrains were planted in 1986 than 1985, shrinking demand for agricultural products supplied by Terra.

Last year, Terra successfully integrated into its distribution network 118 farm service centers in the Midwest that were acquired from Standard Oil Company of Ohio in 1985. The Company also strengthened its position in crop protection and wholesale agricultural chemical markets in the South and Midwest by adding 25 locations through acquisition or leasing. In late 1986, Terra closed or consolidated selected farm service centers and began to reduce its workforce by 10 percent. It currently operates 247 such distribution centers, serving growers and dealers in 23 states.

In 1986, the Company signed an agreement with Freeport-McMoRan for the exclusive distribution of diammonium phosphate fertilizer production from Freeport's Luling, Louisiana facility. The marketing pact should enable Terra to increase its share of the wholesale fertilizer market.

This Terra farm service center in northwestern Ohio is one of 247 that supplies local dealers and growers with a full range of products and services for agriculture, including fertilizers, crop protection products and custom application.

Terra International, Inc.
Revenues 1983-1986
(in millions)



Terra also formed a joint venture company with Molecular Genetics Inc., a leading biotechnology company, to develop and sell through Terra's distribution network advanced varieties of hybrid corn and other seed. The agreement strengthens Terra's position as the largest independent distributor of seed in the United States.

In 1986, Terra opened a newly renovated and expanded soil and plant tissue testing laboratory at Lima, Ohio that provides growers with valuable agronomic information and a complete fertilizer and crop production plan for their operations.

Terra expects consolidations among producers and distributors, record feedgrain surpluses, uncertain export demand and expanded government acreage reduction programs to continue. Since an estimated 25 million fewer acres of major field crops may be planted in 1987, demand for agricultural products provided by Terra may shrink by between 5 and 10 percent.

Terra is responding aggressively to these competitive pressures by increasing the efficiency of its distribution network and improving its product mix and grower services.

Although Terra's production facilities already are among the lowest cost U.S. producers, it plans to reduce costs further at its nitrogen-based fertilizer manufacturing complex at Port Neal, Iowa and dry-flowable crop protection formulation plant at Blytheville, Arkansas.

In 1987, Terra locations will emphasize higher margin product lines, such as seed and micronutrients. Terra also plans to build on its marketing and distribution strengths by obtaining additional distribution agreements for agricultural chemical products. Redesigned packaging and increased promotional support should contribute to improved sales of Terra's higher margin private label agricultural chemical line, which now includes more than 70 products.

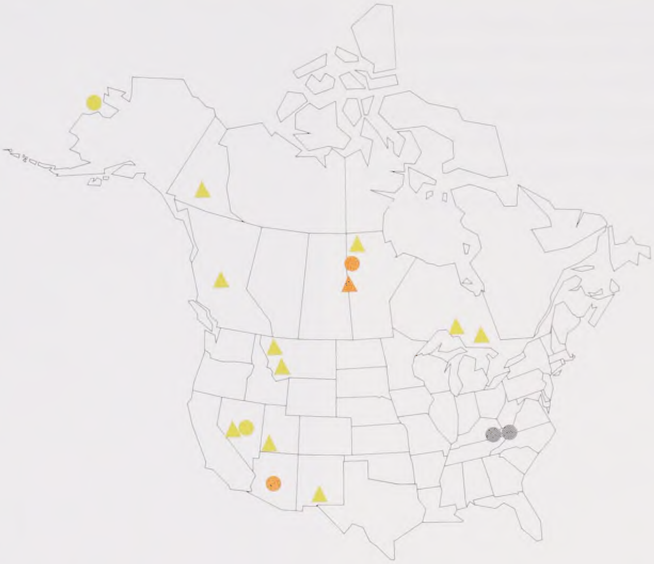
The *Bima*, Inspiration Gold's offshore mining vessel, operating off Nome, Alaska. The 525-foot-long vessel can mine over a thousand cubic yards of gold-bearing deposits per hour.

Mining

Hudson Bay Mining and Smelting Co., Limited
Inspiration Consolidated Copper Company
Inspiration Coal Inc.
Inspiration Gold Incorporated
Inspiration Resources Marketing Corporation

In 1986, our combined U.S. and Canadian mining operations reported an operating loss of $4.7 million on total revenues of $485.0 million, compared with an operating loss of $194.7 million, including $160.5 million in restructuring charges, on total revenues of $491.1 million in 1985. The reduced losses reflected lower operating costs associated with 1985 restructuring efforts, a gain from the sale of a royalty interest in a mining property, and the capitalization of prior period exploration expenses at properties that began production in 1986.

Refined copper stocks in 1986 fell to their lowest level in more than a decade, although prices showed little improvement. The average New York Commodity Exchange (Comex) price for copper cathodes was 62 cents per pound in 1986, compared with 61 cents per pound in 1985. The London Metal Exchange price for high-grade zinc averaged 34 cents per pound in 1986, compared with 35 cents per pound in 1985.



Mining and Exploration Locations

- Active Base Metals Operations
- Active Gold Operations
- Active Coal Operations
- Base Metals Exploration
- Gold Exploration

IRC's principal base metals mining operations are located in Arizona and northern Manitoba. Its coal mining operations are located in southeastern Kentucky and western Virginia. Gold production recently began at locations in Nevada and Alaska and exploration continues at these and other gold properties in the western United States and Canada.

In 1986, we significantly reduced costs and increased productivity at our North American mining operations, cutting the overall cash cost to produce copper at our North American mines to below 60 cents per pound.

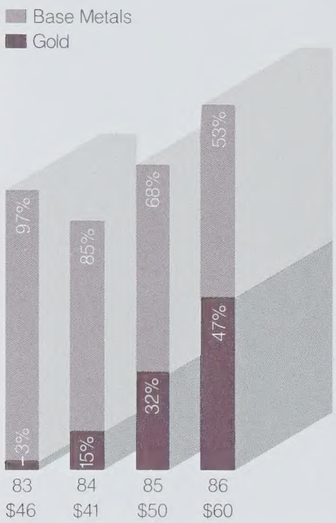
Hudson Bay Mining and Smelting Co., Limited (HBMS), our Canadian base metals subsidiary, reported an operating loss for 1986 of $16.2 million on total revenues of $186.9 million, compared with an operating loss of $61.2 million, including $52.6 million in restructuring charges, on total revenues of $212.9 million in 1985.

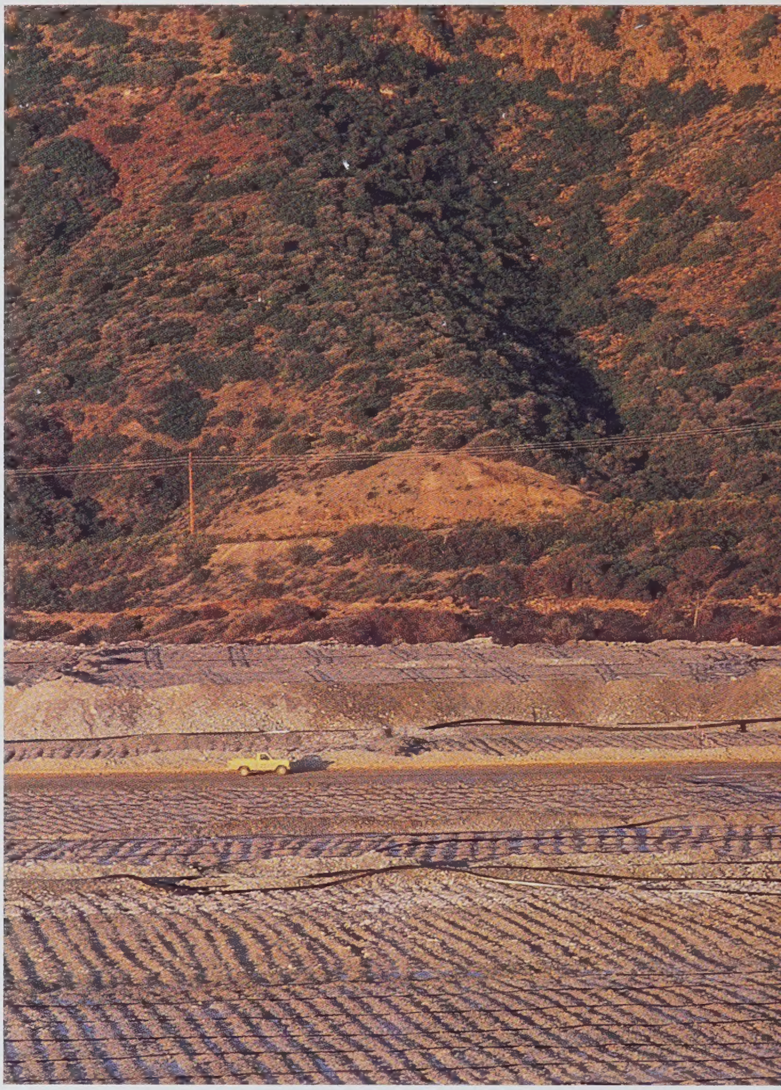
HBMS' 1986 results included exploration expenses of $9.2 million incurred at a nickel/copper property at Namew Lake, Manitoba and a non-recurring charge of $4.3 million related to HBMS' interest in a tantalum mining and milling operation.

HBMS reduced unit costs through an 11.5 percent reduction in workforce, concessions from major suppliers, more efficient usage of materials and services, and reduced fuel and freight costs. In 1987, HBMS expects to reduce costs further through additional productivity improvements and increased production from higher grade ore deposits.

In 1986, HBMS produced 184 million pounds of zinc and 137 million pounds of copper from Company-mined and purchased concentrates. The Company's

Base Metals and Gold Capital Expenditures and Exploration Costs 1983-1986
(in millions)





Mining (continued)

smelter produced from base metals concentrates 66,000 ounces of gold and 1.3 million ounces of silver.

Our Inspiration Consolidated Copper Company (ICC) subsidiary posted its first profitable year since 1979. It reported operating income of $13.6 million on total revenues of $205.8 million in 1986, compared with an operating loss of $86.0 million, including $70.7 million in restructuring charges, on total revenues of $184.7 million in 1985.

ICC achieved profitability by successfully resolving labor, production and transportation issues, thereby ensuring reduced costs and greatly improving the Company's long-term outlook. As a result, ICC is among the lowest cost copper producers in the United States.

In January 1986, ICC shut down its concentrator and began producing all Company-mined copper using the less costly leach extraction method. In mid-July, ICC signed new labor contracts with the unions representing its employees, reducing wages and benefits by 23 percent and gaining important concessions in work practices.

Pads for leaching copper ore extend over 500 acres at Inspiration Copper's Miami, Arizona facility. We currently produce about 250,000 pounds of copper per day from the low-cost leach extraction process.

In 1986, ICC produced 104 million pounds of copper, including 92 million from the leach extraction method. ICC continued to operate its smelter at full capacity, treating purchased and tolled concentrates. Contracts signed in 1986 will ensure ICC sufficient concentrates to meet its smelter requirements over the next several years.

Unlike many of its competitors, ICC has not had to make substantial capital expenditures in recent years to upgrade its smelter to meet regulatory requirements. The smelter already complies with the Clean Air Act standards that took effect in January 1986. In July 1986, ICC was ordered by the U.S. Environmental Protection Agency (EPA) to drain a wastewater collection pond on its property and remove the remaining sludge. ICC and the EPA are currently negotiating a cleanup plan that should result in a revised order and a timetable for remedial action.

Inspiration Resources Marketing Corporation (IRMC), which markets and sells IRC's base and precious metals production, increased sales of refined copper in 1986 to 196,000 tons from 192,000 tons in 1985. Sales of zinc in 1986 declined to 89,000 tons from a record 96,000 tons in 1985. In 1986, IRMC also assumed responsibility for coal marketing.

Declining steel production, lower alternate fuel prices and worldwide overcapacity have created a weak and highly competitive coal market. Although average coal

Our coal is loaded for overseas shipment at a terminal near Norfolk, Virginia. Inspiration Coal exports through brokers over 30 percent of its annual production to customers in Japan, Korea, Western Europe and Latin America.

Inspiration Coal Inc.
Sales by Market 1984-1986
(in thousands of tons)

Mining (continued)

prices declined, Inspiration Coal Inc. (ICI) reported record operating income in 1986, with all mines posting profits for the first time. Operating income for 1986 totaled $3.5 million on revenues of $90.6 million, compared with an operating loss of $34.8 million, including restructuring charges of $37.2 million, on revenues of $93.5 million in 1985.

ICI increased earnings in 1986 by cutting unit production costs. The Company successfully brought into production less costly contract coal mines and substantially increased production of low-cost Company-mined coal. ICI also added storage capacity for higher margin stoker coal and improved its coal handling capabilities. A reorganization of ICI's headquarters staff that began in late 1986 is expected to reduce overhead expenses by more than $1 million in 1987.

ICI has built a reputation in the coal market as a supplier of high-quality industrial coal. In 1987, the

The headframe of an exploratory mine shaft rises 200 feet above Namew Lake in northern Manitoba, where Hudson Bay Mining and Smelting has discovered a high-grade nickel/copper deposit.

Company plans to expand its brokerage business and increase sales under longer term contracts with both utilities and industrial coal users.

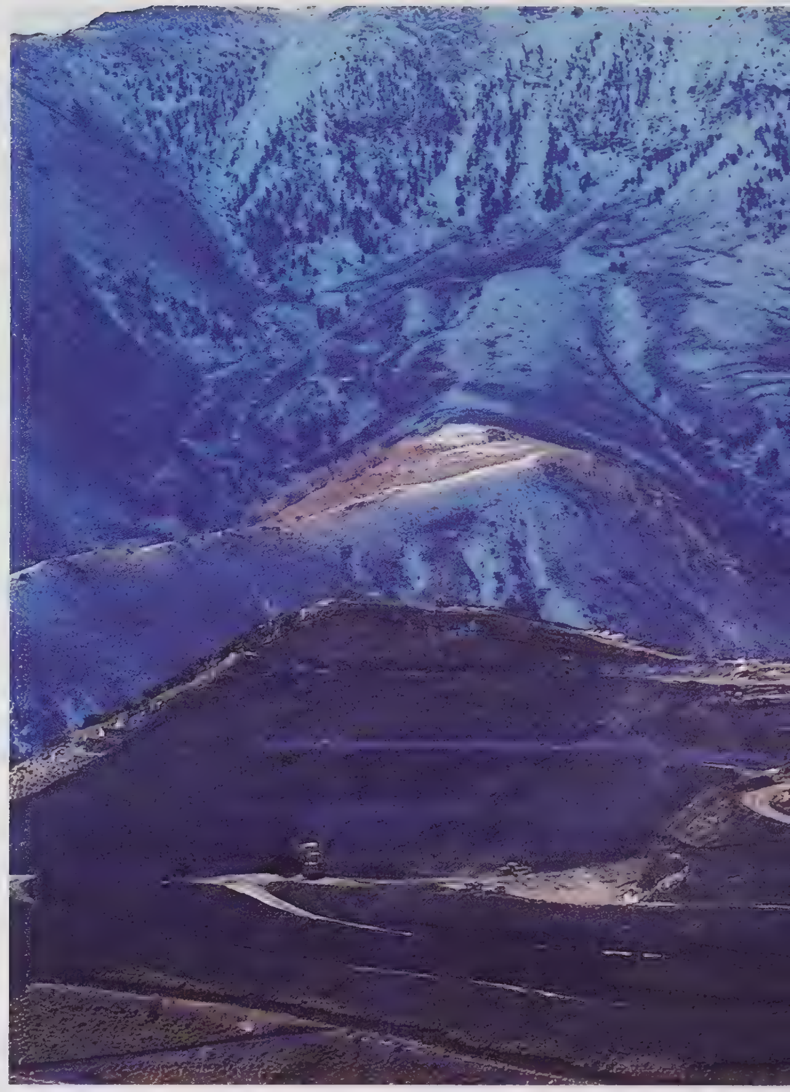
Exploration and Development

In 1986, our mining operations spent a total of $60 million in capital expenditures and the exploration and development of base and precious metals mining properties, with $28 million spent in connection with gold properties. We are increasing our exploration program at ICC and HBMS in response to diminishing base metals reserves.

The primary goal of our gold exploration and development activities is to achieve substantial annual production by the end of 1990. Most of our precious metals exploration budget is directed at the acquisition of properties with known deposits that we believe we can define further and develop economically. We currently hold rights to a number of gold properties, mainly in the western United States and Alaska, as well as several joint venture interests in Canada.

In 1986, Inspiration Gold Incorporated (IGI), which operates all of our U.S. gold properties, began production at an open pit mine near Austin, Nevada and at a marine placer project at Nome, Alaska.

IGI owns a 72.5 percent interest in a gold mining and milling facility at Austin, Nevada as part of a joint venture. The Austin property has an estimated ore reserve of 1.1 million tons at an average grade of 0.18 ounces of gold per ton, yielding a gold content of 204,000 ounces. The adjacent processing facility has



Mining (continued)

the capacity to handle 1,000 tons of ore per day and produce over 50,000 ounces of gold annually. Exploratory drilling being conducted within a large claim block surrounding the present site has produced encouraging results and could yield additional reserves.

The *Bima,* an offshore mining vessel, began to mine gold-bearing deposits off Nome, Alaska in August 1986. The vessel is being modified in preparation for another mining season this year.

IRC is an equal shareholder with a subsidiary of Minerals and Resources Corporation Limited in Mingold Resources Inc. in Canada. Mingold, which was formed at the beginning of 1987, plans to explore for and acquire gold properties and companies with the goal of developing a significant gold production capability in Canada.

Other IRC units also are exploring for gold in Canada on existing claims. Among the most promising prospects is a property near Farley Lake in northern

Inspiration Gold owns a 72.5 percent interest in an open pit gold mine near Austin, Nevada that began production in November 1986. The joint venture project is expected to produce an average of 50,000 ounces of gold annually.

Manitoba, where an IRC subsidiary and a unit of the Province of Manitoba have encountered combined proven and probable geological reserves of more than 1.2 million tons with an average assay of 0.18 ounces of gold per ton. The IRC unit holds a 45 percent interest in the property.

Our most promising base metals discovery is a nickel/copper deposit at Namew Lake, Manitoba. At year end, Hudson Bay Mining and Smelting (HBMS) had sunk an exploratory shaft 1,067 feet at the site to gain access to the deposit to collect metallurgical test samples. The deposit holds an estimated 2.82 million short tons of ore containing 2.44 percent nickel and 0.9 percent copper with traces of platinum and palladium. HBMS is seeking to establish a joint venture for the continued exploration and future development of the Namew Lake property.

In 1987, HBMS plans to increase production from known ore reserves of Company-owned mines in the Flin Flon/Snow Lake area of northern Manitoba. HBMS has obtained encouraging results from the north zone of its jointly owned Trout Lake zinc/copper mine, high-grade crown pillar deposits at Chisel Lake, and the Callinan copper/zinc mine located about a mile north of HBMS' original Flin Flon mine.

ICC has identified sufficient leachable ore at its Miami, Arizona site to produce 100 million pounds of copper annually from the leach extraction method for at least 10 years.

Leasing

Inspiration Leasing Inc.

Inspiration Leasing Inc. (ILI) is IRC's most recent acquisition. The unit, which included $32 million in cash, was purchased from Merrill Lynch & Co., Inc. on October 31 for $129 million. The acquisition was financed primarily by a non-recourse bank loan to an IRC subsidiary based on future lease cash flows. Certain leased assets, representing less than 30 percent of the portfolio's total value, were sold to a unit of U S WEST, Inc. on December 31, for $91 million in cash. The sale, which provided sufficient funds to eliminate much of the indebtedness incurred when the unit was acquired, allowed substantial cash flow from ILI to IRC in 1986.

The acquisition of ILI has allowed us to expand outside our core businesses with limited financial risk. ILI now manages a portfolio of high-quality leases on industrial facilities and equipment, computers, communication equipment and aircraft.

The portfolio includes 36 leveraged leases, covering a wide variety of equipment with an original cost of $517 million, five direct financing leases for property costing $5 million and 43 tax benefit

Joint venture interests in IBM computer equipment with an original cost of $647 million are among the leased assets managed by Inspiration Leasing. We acquired the leasing unit from Merrill Lynch & Co., Inc. in October 1986.

Inspiration Leasing Inc.
Estimated Income and Cash Flow*
1987-1990 (in millions)

*Cash Flow will be used to pay down debt until mid-1989

leases for which Merrill Lynch paid $51 million. The remaining portion of the portfolio consists of joint venture interests in computer equipment with an original value of $647 million and in which ILI has an approximately 20 percent limited partnership interest.

ILI lessees currently include RCA Corporation, MCI Communications, Carter Hawley Hale Stores, Conrail, Hertz and Greyhound. There are no plans presently to add or sell any additional leases.

The lease portfolio provides IRC with a predictable source of cash flow and earnings over its current 24-year life. ILI expects to record 1987 pre-tax earnings of approximately $19 million and cash flows of nearly $15 million. ILI expects to generate over $71 million in positive cash flow and $61 million in earnings in the next four years. The future taxable earnings of ILI can be offset by the use of IRC's tax net operating loss carryforward, which totaled approximately $244 million at December 31, 1986.

Immediately after the sale of leased assets, ILI borrowed $40 million against future cash flows and in turn remitted the funds to IRC. The Corporation used the funds, which ILI anticipates repaying by mid-1989, to reduce the outstanding debt on IRC's revolving credit agreement. Cash flows will become available to IRC once the loan has been repaid.

IRC Products and Strategies

Product	1986 Revenues	Product Description/Markets	Strategy
Crop Protection	$354 Million	Herbicides, insecticides, seed treatments, surfactants, defoliants and micronutrients sold to wholesale dealers or directly to growers.	• Obtain exclusive distribution agreements. • Provide customized blending and application services. • Selectively expand distribution network. • Improve profitability of farm service centers. • Increase marketing of private label products and micronutrients.
Fertilizers	$221 Million	Liquid and dry-flowable nitrogen-based fertilizers sold to wholesale dealers and growers.	• Reduce manufacturing costs. • Obtain exclusive distribution agreements. • Increase services, including custom blending and application, soil and plant testing. • Selectively expand distribution network. • Improve profitability of selected operations.
Seed	$30 Million	Hybrid corn, cotton, sorghum, soybean and wheat seed sold to growers.	• Increase sales of private label products. • Develop new seed varieties through biotechnology joint venture.
Copper	$262 Million	Copper rod and refined cathodes for wire and cable, housing and construction and automotive industries.	• Reduce unit costs through lower labor costs, increased productivity, smelter improvements and lower cost production methods. • Complete improvements at U.S. smelter. • Develop higher grade ore reserves (Canada).
Nickel	(Exploration only)	Nickel concentrates for stainless steel manufacture, alloying and plating.	• Continue sinking exploratory shaft at Namew Lake property. • Reduce costs via joint venture.
Zinc	$50 Million	Slab zinc for corrosion-resistant steel, hot-dip galvanizing, alloying and plating.	• Reduce unit costs through productivity improvements. • Seek financing for pressure leach project. • Increase marketing of value-added zinc products, *e.g.* zinc oxide
Gold	(U.S. gold production began in late 1986.)	Gold concentrates and refined gold for minting, investment, electronics manufacture, jewelry and industrial uses.	• Seek outside financing to reduce development costs. • Form joint ventures to increase production and reserves. • Seek to develop substantial annual production by end of 1990.
Coal	$91 Million	Thermal and metallurgical coal for electrical generation, industrial steam production and steel manufacture.	• Maximize production at preparation plants and Company mines. • Reduce production costs at contract coal mines. • Increase sales to industrial and longer term contract customers.
Leases	(Leasing unit acquired 10/31/86)	Leveraged, direct financing, tax-benefit and joint venture computer equipment leases.	• Effectively manage portfolio to maximize cash flow and earnings. • Enhance earnings through use of tax loss carryforward.

Financial Section 1986

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Financial Review

Results of Operations

1986 Compared with 1985

The Corporation reported net income of $37.8 million, or $0.59 per share, on revenues of $1,122.1 million in 1986, compared with a net loss of $291.5 million, or $4.62 per share, on revenues of $1,080.0 million in 1985. The 1986 results include $85.5 million of equity in earnings before income taxes of an unconsolidated leasing subsidiary that was purchased in 1986; an extraordinary credit of $98.5 million reflecting utilization of a portion of the Corporation's net operating loss carryforward; a $7.5 million credit as the cumulative effect of adopting a new pension accounting rule; a $13.3 million gain in connection with the sale of a royalty interest in a mining property; and a $10.2 million credit from capitalizing previously expensed exploration costs at certain gold properties. The 1985 results include restructuring provisions of $160.5 million. Provision for income taxes in 1986 was $96.7 million, compared with a $22.0 million benefit in 1985. The losses from discontinued operations, resulting from the 1985 sale of Danville Resources, Inc., were $3.4 million in 1986 and $75.2 million in 1985.

The operating loss in 1986 totaled $5.9 million, compared with an operating loss of $178.7 million in 1985. The 1986 operating results include the $13.3 million gain on the sale of a royalty interest and the $10.2 million capitalization of previously expensed exploration costs. The 1985 operating loss included $160.5 million of restructuring provisions.

Terra International, Inc. (Terra), the agribusiness segment, reported an operating loss of $1.2 million on revenues of $636.1 million, compared with operating income of $16.0 million on revenues of $588.1 million in 1985. The unfavorable operating results were due primarily to lower operating margins caused by fertilizer price declines in excess of cost reductions, increased selling and administrative costs associated with expanded retail operations and higher liability insurance premiums. Revenues, which increased due to higher sales volume of crop protection products and wholesale fertilizer, were partially offset by lower fertilizer prices. Increased sales of wholesale fertilizer were due in part to a new marketing arrangement.

The base metals segment, consisting of Inspiration Consolidated Copper Company (ICC) and Hudson Bay Mining and Smelting Co., Limited (HBMS), incurred an operating loss of $2.6 million on revenues of $392.7 million in 1986, compared with an operating loss of $147.2 million, including $123.3 million of restructuring provisions, on revenues of $397.6 million in 1985. Base metals prices did not change significantly from the depressed levels of 1985. The New York Commodity Exchange (Comex) copper price averaged $0.62 per pound in 1986, compared with an average of $0.61 per pound in 1985. The London Metal Exchange (LME) price for zinc averaged $0.34 per pound in 1986, compared with $0.35 per pound in 1985.

HBMS incurred an operating loss of $16.2 million on revenues of $186.9 million in 1986, compared with an operating loss of $61.2 million, including $52.6 million of restructuring provisions, on revenues of $212.9 million in 1985. Decreased copper production, due to an extended smelter maintenance shutdown in the second quarter, and lower zinc prices more than offset production cost reductions. Lower depreciation expense and administrative costs, due largely to staff reductions in the Toronto office, and reduced pension expense were more than offset by increased exploration costs at the Namew Lake nickel/copper project and provisions to write down an investment in a tantalum mining and milling operation. Results for 1985 also included gains on asset sales.

ICC reported operating income of $13.6 million on revenues of $205.8 million in 1986, compared with an operating loss of $86.0 million, including $70.7 million of restructuring provisions, on revenues of $184.7 million in 1985. The 1986

operating results include a $13.3 million gain on the sale of a royalty interest in a mining property. Lower depreciation charges and reduced losses from zinc and silver operations, which were shutdown in late 1985, also contributed to the improved results. Copper production costs increased due to a planned smelter maintenance shutdown.

The gold segment, consisting of Inspiration Gold Incorporated and several Canadian companies currently involved in exploration activities, incurred an operating loss of $5.6 million on revenues of $1.7 million in 1986, compared with an operating loss of $12.7 million in 1985. The 1986 results include a credit of $10.2 million from the capitalization of exploration costs at the Austin, Nevada and Nome, Alaska gold operations as a result of the determination that they were commercially productive. These costs had been expensed primarily in 1985.

Inspiration Coal Inc. (ICI) reported record operating income of $3.5 million on revenues of $90.6 million in 1986, compared with an operating loss of $34.8 million, including $37.2 million of restructuring provisions, on revenues of $93.5 million in 1985. In 1986, ICI continued to lower unit production costs through cost containment and productivity improvements. Decreased depreciation charges were offset partially by a shift of sales mix to lower margin products.

The Corporation recorded $85.5 million of equity in earnings before income taxes of an unconsolidated leasing subsidiary, Inspiration Leasing Inc. (ILI), which was acquired in 1986. ILI's income resulted primarily from its December 1986 sale of certain of its assets (see Note 6 to the Consolidated Financial Statements).

Non-operating expenses, excluding income taxes, totaled $47.7 million in 1986, compared with $59.6 million in the prior year. General and administrative expenses increased due largely to expected losses on an office sublease. An increase in the cost of liability insurance was offset by a reduction in payroll costs. The improvement in interest expense was due primarily to reduced average outstanding borrowings and lower interest rates.

The Corporation recorded a consolidated income tax provision of $96.7 million in 1986, due principally to ILI's results, compared with a tax benefit of $22.0 million in 1985. The Corporation offset its U.S. Federal income tax provision with an extraordinary credit of $98.5 million by utilizing a portion of its net operating loss carryforward.

1985 Compared with 1984

The Corporation reported a loss from continuing operations of $216.3 million in 1985, compared with a loss of $74.8 million in 1984. Results of continuing operations for 1985 were substantially below those of 1984 due primarily to the net after-tax effect of restructuring provisions totaling $142.2 million ($160.5 million pre-tax).

The operating loss from continuing operations was $178.7 million in 1985, compared with $18.9 million in 1984, including restructuring provisions of $160.5 million and $15.5 million, respectively. Lower sales prices, which resulted in generally lower margins, adversely affected all operations in 1985, except the coal segment. Increased exploration expenses significantly contributed to the 1985 operating losses of the base metals segment.

Terra's revenues increased by over 56 percent, to $588.1 million in 1985 from $376.4 million in 1984, primarily as a result of Terra's March 1985 acquisition of the agricultural products division of Sohio Chemical Company (Sohigro) and the December 1984 acquisition of ADI Distributors, Inc. Operating income increased only slightly, however, to $16.0 million in 1985 from $13.7 million in 1984, reflecting severely depressed sales prices resulting from an oversupply condition. In addition, the combined impact of a late spring planting season and fall harvest, caused by record precipitation and cold weather in much of the Corn Belt, contributed significantly to reduced fall fertilizer applications. Volume increases in Terra's expanded retail fertilizer and crop protec-

tion products operations more than offset the impact of significantly higher selling expenses attributable to the acquired businesses.

The base metals segment, consisting of ICC and HBMS, incurred an operating loss of $147.2 million, including $123.3 million of restructuring provisions, on revenues of $397.6 million in 1985, compared with an operating loss of $17.4 million, including $5.3 million of restructuring provisions, on revenues of $410.2 million in 1984. Despite significant reductions in world base metals inventories in 1985, price improvements did not materialize. The Comex copper price remained at an average of $0.61 per pound in 1985. The LME price for zinc fell to an average of $0.35 per pound in 1985 from $0.42 per pound in 1984.

HBMS incurred an operating loss of $61.2 million, including $52.6 million of restructuring provisions, on revenues of $212.9 million in 1985 after having reported a loss of $2.7 million on revenues of $231.0 million in 1984. In 1985, the Flin Flon/Snow Lake, Manitoba operations produced record levels of ore mined and zinc produced. Exploration expenses increased $2.7 million in 1985 principally in connection with the Namew Lake nickel/copper project. Lower zinc and precious metals prices also contributed to the less favorable results.

ICC reported an operating loss of $86.0 million, including $70.7 million of restructuring provisions, on revenues of $184.7 million in 1985, compared with a loss of $14.7 million, including $5.3 million of restructuring provisions, on revenues of $179.2 million in 1984. Copper operations marginally improved in 1985 due to increased sales volumes. Silver and zinc operations incurred increased losses in 1985, as lower sales prices led to the shutdown of these mines for much of the year.

The gold segment incurred operating losses of $12.7 million in 1985 and $0.4 million in 1984. The losses in both years resulted primarily from exploration and development expenditures on properties in Nome, Alaska and Austin, Nevada.

ICI incurred an operating loss of $34.8 million, including $37.2 million of restructuring provisions, on revenues of $93.5 million, compared with a loss of $14.8 million, including $10.2 million of restructuring provisions, on revenues of $73.7 million in 1984. ICI increased sales volumes by 25 percent in 1985 and lowered unit production costs through productivity improvements. Modernization of the Sovereign preparation plant provided increased capacity and improved yields.

During 1985, in view of industry conditions, as well as its inability to sell HBMS at a price deemed adequate, the Corporation determined that a portion of its investment in its coal and base metals assets currently in operation would not be realized through future operations. As a result, economic impairment losses totaling $107.6 million were recorded in 1985. The Corporation also abandoned certain properties no longer possessing future economic value. Provisions for such abandonments totaled $52.9 million in 1985, compared with $15.5 million in 1984.

Non-operating expenses of continuing operations totaled $37.6 million in 1985, compared with $55.9 million in the prior year. Increased Canadian income tax benefits, related primarily to the restructuring provisions recorded by HBMS, were the major cause of this expense reduction. Interest expense also declined slightly as the impact of increased borrowings was more than offset by lower interest rates.

The after-tax loss from the discontinued operations of the petroleum and venture capital segments, which were sold in December 1985, totaled $75.2 million in 1985, compared with $26.5 million in 1984. Loss provisions in connection with the financial restructuring and sale of certain petroleum and other operations, a $34.4 million net ceiling write-off and lower crude oil and natural gas prices were the major causes of the increased loss.

Liquidity and Capital Resources

The Corporation significantly improved its financial position in both 1986 and 1985, primarily as a result of a business acquisition in 1986 and sales of assets in both years. The proceeds from the asset sales were used to reduce outstanding borrowings. As a result, consolidated debt as a percentage of equity at December 31, 1986 decreased to 68 percent from 84 percent at December 31, 1985.

In October 1986, ILI, an unconsolidated subsidiary of the Corporation, acquired a leasing subsidiary of Merrill Lynch & Co., Inc. for a purchase price of approximately $129 million. The assets acquired included $32 million in cash and a portfolio of leveraged and other leases, covering a wide range of industrial and commercial properties, including aircraft, communications equipment, computers, railroad equipment and mining equipment. The acquisition was financed by $10 million in borrowings under the Corporation's long-term credit facilty and by bank borrowings of ILI. In December 1986, ILI sold its interest in certain of its assets for approximately $91 million in cash. ILI used the proceeds to repay a substantial portion of the borrowings incurred at acquisition and to pay $42.7 million to the Corporation pursuant to a consolidated tax sharing agreement. Primarily as a result of the proceeds from ILI, the Corporation was able to reduce consolidated borrowings by $11.4 million.

Terra's March 1985 acquisition of Sohigro for $76.6 million was financed primarily by additional borrowings. At year end, the Corporation applied the proceeds from the sale of Danville to reduce outstanding borrowings. Primarily as the net result of these two transactions, consolidated borrowings of continuing operations declined by $134.4 million in 1985.

Continuing operations generated $11.7 million of cash in 1986, primarily due to a reduction of working capital, compared with a usage of $19.0 million in 1985. Capital expenditures consumed $50.0 million in 1986, compared with $43.0 million in 1985. Capital spending in both years was concentrated in mine development efforts, and in 1986 primarily was in the gold segment. Canadian exploration spending was financed in part by private placements of equity securities of $9.6 million in 1986 and $7.8 million in 1985. Similar arrangements for the funding of Canadian exploration activities have been made for 1987.

During 1986, the Corporation and its principal lenders entered into a new $200 million three-year revolving credit agreement to replace its previous facility. The term will convert to two years if the Corporation is unsuccessful in replacing Terra's $100 million revolving credit arrangement when it terminates at the end of 1987. The Corporation anticipates that Terra's three-year facility, under which Terra borrowed generally at rates below prime in 1986, will be replaced by a similar arrangement commencing in 1988. The new Corporate facility provides for floating-rate interest on outstanding borrowings under alternative rate-setting options based on prime, LIBOR and/or certificate of deposit rates and requires a commitment fee of ½ of 1 percent on unused portions. Other terms and restrictions relating to these facilities are included in Notes 8 and 10 to the Consolidated Financial Statements.

As of December 31, 1986, ILI had outstanding borrowings of $40.0 million. ILI cannot remit additional cash to the Corporation until the loan is repaid. The loan bears interest at 8.88 percent and is anticipated to be repaid with cash generated by ILI during the next three years.

In 1987, the Corporation expects its capital spending program to approximate that of the past three years. As of December 31, 1986, the Corporation had $111.0 million of short-term and $85.1 million of long-term credit lines available for future borrowings. The Corporation believes that these facilities are adequate to provide for its ongoing needs.

Business Segments

Industry Classification		Years Ended December 31	
(in thousands)	**1986**	1985*	1984*
Total Revenues			
Agribusiness	**$ 636,084**	$ 588,111	$ 376,404
Base metals	**392,657**	397,565	410,166
Gold	**1,746**	—	—
Coal	**90,581**	93,542	73,707
Corporate	**1,023**	830	452
	$1,122,091	$1,080,048	$ 860,729
Operating Income (Loss)			
Agribusiness	**$ (1,235)**	$ 15,960	$ 13,707
Base metals[a]	**(2,606)[c]**	(147,195)	(17,371)
Gold	**(5,638)[d]**	(12,667)	(423)
Coal[b]	**3,549**	(34,804)	(14,784)
	(5,930)	(178,706)	(18,871)
Equity in earnings before income taxes of an unconsolidated subsidiary	**85,544**	—	—
Corporate and unallocated expenses	**(17,457)**	(11,212)	(10,501)
Interest expense	**(30,273)**	(48,375)	(49,435)
Income (loss) from continuing operations before income taxes	**$ 31,884**	$ (238,293)	$ (78,807)
Total Identifiable Assets			
Agribusiness	**$ 286,531**	$ 293,617	$ 211,140
Base metals	**299,935**	331,010	532,436
Gold	**39,780**	—	—
Coal	**91,819**	101,310	124,558
Corporate	**62,195[e]**	4,568	3,187
	$ 780,260	$ 730,505	$ 871,321
Depreciation, Depletion and Amortization			
Agribusiness	**$ 12,248**	$ 10,372	$ 6,574
Base metals	**23,974**	35,352	37,545
Gold	**424**	—	—
Coal	**4,256**	5,320	5,946
Corporate	**81**	66	371
	$ 40,983	$ 51,110	$ 50,436
Capital Expenditures			
Agribusiness	**$ 7,804**	$ 9,308	$ 10,879
Base metals	**17,979**	28,508	29,702
Gold	**20,348[f]**	—	—
Coal	**3,881**	5,008	1,459
Corporate	**12**	223	252
	$ 50,024	$ 43,047	$ 42,292

*Restated to disclose continuing operations only, to disclose the Corporation's gold operations as a separate segment and to combine its U.S. and Canadian base metals operations

(a) Includes restructuring provisions of $123.3 million and $5.3 million for base metals in 1985 and 1984, respectively.

(b) Includes restructuring provisions of $37.2 million and $10.2 million for coal in 1985 and 1984, respectively.

(c) Includes income of $13.3 million on the sale of a royalty interest.

(d) Includes $10.2 million from the capitalization of previously expensed exploration costs.

(e) Includes $55.2 million investment in ILI, an unconsolidated subsidiary

(f) Excludes $10.2 million of previously expensed exploration costs capitalized in 1986.

Business Segments

Geographic Areas

(in thousands)	Years Ended December 31 1986	1985*	1984*
Total Revenues			
United States operations	**$ 935,128**	$ 867,118	$ 629,747
Canadian operations[a]	**186,963**	212,930	230,982
	$1,122,091	$1,080,048	$ 860,729
Operating Income (Loss)[b]			
United States operations	**$ 10,663**	$ (117,535)	$ (16,145)
Canadian operations	**(16,593)**	(61,171)	(2,726)
	(5,930)	(178,706)	(18,871)
Equity earnings, corporate and unallocated expenses and interest expense	**37,814**	(59,587)	(59,936)
Income (loss) from continuing operations before income taxes	**$ 31,884**	$ (238,293)	$ (78,807)
Total Identifiable Assets			
United States operations	**$ 598,467**	$ 538,287	$ 551,594
Canadian operations	**181,793**	192,218	319,727
	$ 780,260	$ 730,505	$ 871,321

*Restated to disclose continuing operations only.

(a) Includes export sales of $167.6 million in 1986, $130.6 million in 1985 and $152.4 million in 1984. Included in the above are sales to the United States of $105.0 million in 1986, $85.9 million in 1985 and $100.6 million in 1984

(b) Includes restructuring provisions in 1985 and 1984 of $107.9 million and $15.5 million for U.S. and $52.6 million and $0 for Canadian operations.

Responsibility for Financial Statements

The accompanying consolidated financial statements of Inspiration Resources Corporation and subsidiaries have been prepared in conformity with generally accepted accounting principles appropriate in the circumstances. The integrity and objectivity of data in these financial statements and supplemental data, including estimates and judgments related to matters not concluded by year end, are the responsibility of management.

Management devotes ongoing attention to review and appraisal of its system of internal control. This system is designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and transactions and events are properly recorded. The system is augmented by careful attention to selection and development of qualified financial personnel, programs to further timely communication and monitoring of policies and periodic review by internal auditors.

The consolidated financial statements have been examined by our independent accountants. Their examination included a review of internal accounting controls to establish a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the examination of the financial statements.

B M Joyce

Burton M. Joyce,
Senior Vice President and
Chief Financial Officer

Report of Independent Accountants

To the Board of Directors and Stockholders of Inspiration Resources Corporation:

In our opinion, based upon our examinations and the reports of other independent accountants referred to below, the accompanying consolidated statement of financial position and the related consolidated statements of operations, of changes in financial position and of stockholders' equity present fairly the consolidated financial position of Inspiration Resources Corporation and its subsidiaries at December 31, 1986 and 1985, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, in the method of accounting for pensions as described in Note 15 to the consolidated financial statements. Our examinations of these consolidated financial statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the 1984 financial statements of Danville Resources, Inc. (Danville) and Madison Resources, Inc. (Madison), consolidated subsidiaries from their dates of acquisition through November 30, 1985, which statements reflect the total of loss from discontinued operations included in the consolidated statement of operations for the year ended December 31, 1984. These statements were examined by other independent accountants whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the 1984 amounts included for Danville and Madison is based solely upon the reports of the other independent accountants.

Price Waterhouse

153 East 53rd Street
New York, New York

March 9, 1987

Consolidated Statement of Financial Position

(in thousands)	At December 31 1986	1985
Assets		
Cash	$ 19,145	$ 26,830
Accounts receivable, less allowance for doubtful accounts of $4,145 and $6,115	83,722	90,074
Inventories	237,297	239,315
Other current assets	6,756	4,600
Total current assets	346,920	360,819
Investments	67,805	19,479
Property, plant and equipment, net	353,130	331,401
Other assets	12,405	18,806
Total assets	$780,260	$ 730,505
Liabilities		
Debt due within one year	$ 12,516	$ 2,889
Accounts payable	127,965	116,144
Accrued and other liabilities	81,537	69,645
Total current liabilities	222,018	188,678
Long-term debt	202,652	223,536
Other liabilities	30,897	38,872
Deferred income taxes	8,170	9,137
Total liabilities	463,737	460,223
Stockholders' Equity		
Capital Stock		
Common Shares, authorized 79,375 shares; outstanding 40,618 and 37,874 shares	40,846	37,874
Class A Shares, authorized 29,125 shares; outstanding 17,898 shares; convertible into Common Shares on a one-for-one basis	17,898	17,898
Trust Shares, authorized 16,500 shares; outstanding 6,209 and 7,805 shares	34,538	43,411
Paid-in surplus	522,810	510,596
Currency translation adjustment	(38,304)	(40,386)
Accumulated deficit	(261,265)	(299,111)
Total stockholders' equity	316,523	270,282
Total liabilities and stockholders' equity	$780,260	$ 730,505

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Operations

	Years Ended December 31		
(in thousands, except per share amounts)	**1986**	1985	1984
Revenues			
Net sales	**$1,098,835**	$1,056,056	$ 844,052
Interest and other income, net	**23,256**	23,992	16,677
	1,122,091	1,080,048	860,729
Costs and Expenses			
Cost of sales	**988,416**	932,093	743,562
Depreciation, depletion and amortization	**40,983**	51,110	50,436
Exploration expense	**7,768**	21,089	10,898
Selling, general and administrative expense	**108,311**	105,164	69,743
Interest expense	**30,273**	48,375	49,435
Restructuring provisions	**—**	160,510	15,462
	1,175,751	1,318,341	939,536
Loss from continuing operations before equity earnings and income taxes	**(53,660)**	(238,293)	(78,807)
Equity in earnings before income taxes of an unconsolidated subsidiary	**85,544**	—	—
Income (loss) from continuing operations before income taxes	**31,884**	(238,293)	(78,807)
Income tax (provision) benefit	**(96,723)**	22,025	4,030
Loss from continuing operations	**(64,839)**	(216,268)	(74,777)
Loss from discontinued operations, including income tax provisions of $0, $9,084 and $9,229	**(3,351)**	(75,179)	(26,514)
Loss before extraordinary item and cumulative effect of an accounting change	**(68,190)**	(291,447)	(101,291)
Extraordinary benefit of net operating loss carryforward	**98,488**	—	—
Cumulative effect on prior years of a change in accounting for pensions, net of an income tax provision of $4,030	**7,548**	—	—
Net Income (Loss)	**$ 37,846**	$ (291,447)	$(101,291)
Weighted average number of shares outstanding	**64,170**	63,081	32,581
Earnings (Loss) Per Share:			
Continuing operations	**$(1.01)**	$(3.43)	$(2.30)
Discontinued operations	**(0.05)**	(1.19)	(0.81)
	(1.06)	(4.62)	(3.11)
Extraordinary benefit of net operating loss carryforward	**1.53**	—	—
Cumulative effect of a change in accounting for pensions	**0.12**	—	—
Total	**$ 0.59**	$(4.62)	$(3.11)

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Financial Position

(in thousands)	1986	1985	1984
		Years Ended December 31	
Continuing Operations:			
Sources of Cash			
Operations:			
Net loss from continuing operations	**$(64,839)**	$(216,268)	$ (74,777)
Add (deduct) non-cash items:			
Restructuring provisions	—	160,510	15,462
Depreciation, depletion and amortization	**40,983**	51,110	50,436
Capitalization of prior years exploration costs	**(10,232)**	—	—
Equity in earnings before income taxes of an unconsolidated subsidiary	**(85,544)**	—	—
Deferred taxes and other	**2,942**	(25,672)	(3,812)
Extraordinary benefit of net operating loss carryforward	**98,488**	—	—
Cash increases (decreases) from working capital items:			
Accounts receivable	**6,352**	7,663	9,848
Inventories	**2,018**	(52,851)	(45,495)
Other current assets	**(2,156)**	21,787	(18,713)
Accounts payable	**11,821**	(2,606)	17,599
Accrued and other liabilities	**11,892**	14,533	26,961
Payable to affiliate	—	(23,611)	23,611
Working capital changes from acquisitions	—	54,356	(4,675)
Working capital changes of discontinued operations	—	(7,901)	15,353
Cash from (used by) continuing operations	**11,725**	(18,950)	11,798
Distribution from an unconsolidated subsidiary, net	**40,480**	—	—
Proceeds from disposal of subsidiary	—	215,000	—
Recovery of foreign pension assets	**6,777**	11,804	5,697
Total sources	**58,982**	207,854	17,495
Uses of Cash			
Business acquisitions	**(10,000)**	(76,587)	(2,856)
Investments in discontinued operations	—	—	(127,136)
Capital expenditures	**(50,024)**	(43,047)	(42,292)
Other, net	**(1,526)**	5,034	14,465
Total uses	**(61,550)**	(114,600)	(157,819)
Financing Activities			
Proceeds from equity offerings	**6,313**	6,827	179,375
Proceeds from long-term borrowings	**24,730**	413	73,855
Reduction of long-term debt	**(45,787)**	(83,010)	(116,800)
Increase (decrease) in debt due within one year	**9,627**	(51,766)	(386)
Net financing activities	**(5,117)**	(127,536)	136,044
Changes in Cash from Continuing Operations	**(7,685)**	(34,282)	(4,280)
Changes in Cash from Discontinued Operations	—	(84,752)	76,093
Increase (Decrease) in Cash	**$ (7,685)**	$(119,034)	$ 71,813

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Stockholders' Equity

(in thousands)	Common Shares	Class A Shares	Trust Shares	Paid-In Surplus	Currency Translation Adjustment	Accumulated Earnings (Deficit)	Total
Balance at December 31, 1983	$11,828	$ 8,722	$53,945	$367,654	$(17,765)	$ 93,627	$ 518,011
Exchange Offer	12,000			61,092			73,092
Subscription Offer	10,815	9,176		83,298			103,289
Private placements	348			2,646			2,994
Exchanges of HBMS Special Shares	1,339		(7,450)	6,111			—
Currency translation adjustment					(12,181)		(12,181)
Net loss						(101,291)	(101,291)
Balance at December 31, 1984	36,330	17,898	46,495	520,801	(29,946)	(7,664)	583,914
Private placements	989			5,838			6,827
Exchanges of HBMS Special Shares	555		(3,084)	2,529			—
Dilution of equity in a subsidiary				(18,572)			(18,572)
Currency translation adjustment					(10,440)		(10,440)
Net loss						(291,447)	(291,447)
Balance at December 31, 1985	37,874	17,898	43,411	510,596	(40,386)	(299,111)	270,282
Private placements	1,146			5,157			6,303
Exchanges of HBMS Special Shares:							
On or before August 31, 1986	1,569		(8,725)	7,156			—
Subsequent to August 31, 1986	255		(148)	(107)			—
Exercise of stock options	2			8			10
Currency translation adjustment					2,082		2,082
Net income						37,846	37,846
Balance at December 31, 1986	**$40,846**	**$17,898**	**$34,538**	**$522,810**	**$(38,304)**	**$(261,265)**	**$ 316,523**

See accompanying Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Basis of presentation:
The consolidated financial statements include the accounts of Inspiration Resources Corporation (the Corporation) and all majority-owned subsidiaries with the exception of Inspiration Leasing Inc. (ILI), a wholly owned leasing subsidiary. ILI is accounted for on the equity method because its operations are unrelated to and differ significantly from the operations of the consolidated group. Certain prior year amounts have been reclassified to conform to 1986 presentation.

Inventories:
Metals, agricultural products, coal and all other saleable products are valued at the lower of cost or estimated net realizable value. Metal by-products are recorded at estimated net realizable value. The cost of all agricultural chemicals and of certain domestic metals inventories, including all finished goods and metals in process at refineries, is determined using the last-in, first-out (LIFO) method. The cost of all other inventories is determined on the first-in, first-out (FIFO) basis.

Property, plant and equipment:
Mineral properties—Exploration costs related to operating and development stage mines and major mine development expenditures are capitalized and amortized by the unit-of-production method based on estimated proven reserves. All other mineral exploration and development costs are expensed as incurred. Expenditures for projects deemed commercially productive are capitalized with a corresponding credit to earnings at the time this determination is made. During non-operating periods, the capitalized costs of mineral properties are not amortized.

Plant and equipment—Expenditures for plant and equipment additions, replacements and major improvements are capitalized. Related depreciation is charged to expense on a straight-line basis over estimated useful lives or by the unit-of-production method based on estimated proven reserves. Maintenance and repairs are expensed as incurred.

Economic impairment—Management assesses the recoverability of its assets and reduces the recorded value of property, plant and equipment to its estimated net realizable value when necessary.

Exploration:
The Corporation funds a portion of its exploration program in Canada through private placement of Common Shares. The Common Shares are sold at a premium to market value because the tax benefits resulting from the exploration expenditures flow through to the subscribers under Canadian tax laws. The portion of the subscription price in excess of market value is recorded as a credit to exploration expense.

Foreign currency translation:
Currency translation adjustments arise from the translation of the accounts of Hudson Bay Mining and Smelting Co., Limited (HBMS) from Canadian dollars to U.S. dollars. Translation adjustments have been accumulated as a separate component of Stockholders' Equity.

Per share results:
Earnings (loss) per share data are based on the weighted average number of Common Shares, including those that would become outstanding after allowing for the full exchange of outstanding HBMS Special Shares and conversion of outstanding Class A Shares.

Business segments:
Business segment information for the years ended December 31, 1986, 1985 and 1984, appearing on pages 22-23 in this Annual Report, is an integral part of these financial statements.

2. Business Acquisitions

On October 31, 1986, ILI acquired all of the outstanding stock of a wholly owned leasing subsidiary of Merrill Lynch & Co., Inc. for a purchase price of approximately $129 million. The assets acquired included $32 million in cash and a portfolio of leveraged and other leases covering a wide range of industrial and commercial properties, including aircraft, communications equipment, computers, railroad equipment and mining equipment. The acquisition was financed by $10 million in borrowings under the Corporation's long-term credit facility and by bank borrowings of ILI. Had this transaction occurred January 1, 1985, on an unaudited pro forma basis, the Corporation's consolidated revenues would not have changed, its consolidated net loss in 1985 would have been approximately $277.3 million, or $4.40 per share, and its consolidated net income in 1986 would have been approximately $44.6 million, or $0.69 per share.

In March 1985, Terra purchased $55.1 million of working capital and $21.5 million of fixed assets of the agricultural products division of Sohio Chemical Company, a subsidiary of The Standard Oil Company of Ohio. The transaction was financed primarily by borrowings under the Corporation's long-term credit facility. In December 1984, Terra also purchased ADI Distributors, Inc., a distributor of crop protection products and seed, for $2.9 million.

3. Discontinued Operations

On December 30, 1985, the Corporation completed the sale of its interest in Danville Resources, Inc. (Danville), including Danville's majority-owned subsidiary Adobe Resources Corporation (Adobe), and related assets to a wholly owned subsidiary of Minerals and Resources Corporation Limited (Minorco) for $215 million in cash (the Danville Sale). The selling price was determined by independent appraisals. Minorco is the principal stockholder of the Corporation.

Adobe and Danville constituted the Corporation's petroleum and venture capital segments in previously reported financial statements. Accordingly, financial information for 1985 and prior years reflects the results of these previously consolidated subsidiaries, including the $10.3 million loss in 1985 from the Danville Sale, as discontinued operations. The loss from discontinued operations reported for 1986 represents the Corporation's share of losses related to certain venture capital assets received from Danville in connection with the Danville Sale.

Revenues from the discontinued operations were $0, $73.3 million and $52.2 million and operating income (loss) was $(3.4) million, $(87.6) million and $13.9 million for 1986, 1985 and 1984, respectively.

4. Restructuring Provisions

In 1985, management determined that, due to permanent structural changes within the mining industry, the ongoing review of operating plans and other events, certain of the Corporation's operating assets had been permanently impaired and others should be abandoned. The loss provisions for permanently impaired properties were made against the carrying values of the affected mining properties, equipment and related assets in excess of their estimated net realizable values. The loss provisions for properties that were abandoned included the net book value of the property, plant and equipment and shutdown costs. No restructuring provisions were recorded in 1986.

The loss provisions by business segment were as follows:

(in thousands)	1985	1984
Economic impairment		
U.S. base metals	$ 52,099	$ —
Canadian base metals	40,886	—
Coal	14,627	—
Total impairment losses	107,612	—
Abandonment		
U.S. base metals	18,602	5,273
Canadian base metals	11,755	—
Coal	22,541	10,189
Total abandonment losses	52,898	15,462
Total	$160,510	$15,462

5. Inventories

Inventories consisted of the following at December 31:

(in thousands)	**1986**	1985
Agribusiness		
—work in process	**$ 5,385**	$ 5,415
—finished goods	**142,833**	136,709
Base metals		
—work in process	**55,600**	65,526
—finished goods	**8,234**	5,480
Coal		
—finished goods	**3,056**	3,829
Materials and supplies	**22,189**	22,356
Total	**$237,297**	$239,315

Had the FIFO method of valuation been used, total inventories would not have changed at December 31, 1986 and would have been $9.9 million higher than reported at December 31, 1985.

6. Investments

The Corporation's investment in ILI is accounted for on the equity method and totaled $55.2 million as of December 31, 1986. All other investments, of which none is individually significant, are primarily in non-public companies carried at cost.

Summarized financial information for ILI as of December 31, 1986 and for the period from the date of acquisition, October 31, 1986, through December 31, 1986, follows:

(in thousands)	
Investment in leveraged and other leases	**$ 78,994**
Goodwill	**17,661**
Other	**724**
Total assets	**$ 97,379**
Payable to parent company	**$ 32,076**
Bank borrowings	**40,000**
Deferred income taxes	**7,637**
Other	**2,175**
Stockholder's equity	**15,491**
Total liabilities and equity	**$ 97,379**
Gain on sale of leases	**$ 100,485**
Rental and other income	**5,356**
Amortization of goodwill	**(18,619)**
Interest and other expenses	**(1,678)**
Income before taxes	**85,544**
Provision for income taxes	**(105,053)**
Net loss	**$ (19,509)**

ILI's results are included in the Corporation's consolidated income tax returns. Accordingly, the Corporation's equity in ILI's earnings is reported before provision for income taxes.

On December 31, 1986, ILI completed the sale of its interest in certain of its assets for approximately $91 million in cash. The sale resulted in an income tax liability of $100.5

million and, as a result of the application of the purchase method of accounting, an equivalent gain on sale was recognized. ILI used the proceeds to repay a substantial portion of the borrowings incurred at acquisition and to pay $42.7 million to the Corporation pursuant to a consolidated tax sharing agreement.

The unpaid portion of ILI's separate company income tax liability, excluding $25 million which was capitalized as part of stockholder's equity, is reported by ILI as a payable to parent company.

The bank borrowings bear interest at 8.88 percent and will be repaid from ILI's cash flows. The loan is anticipated to be repaid within three years. Until such time, ILI cannot remit additional cash to the Corporation and the Corporation must fund all operating expenses of ILI except interest. ILI shares secure the borrowings which are otherwise nonrecourse to the Corporation.

ILI's goodwill is being amortized in proportion to the utilization of the Corporation's net operating loss carryforward resulting from ILI's operations. The goodwill should be fully amortized in approximately six years.

7. Property, Plant and Equipment, net

Property, plant and equipment, net consisted of the following at December 31:

(in thousands)	1986	1985
Agribusiness	**$ 134,356**	$ 127,896
Base Metals		
—property, plant and equipment	**484,197**	495,166
—unamortized mine development expenditures	**40,866**	39,259
Gold		
—property, plant and equipment	**21,641**	—
—unamortized mine development expenditures	**16,158**	—
Coal		
—property, plant and equipment	**77,291**	86,158
—unamortized mine development expenditures	**4,465**	1,752
	778,974	750,231
Less accumulated depreciation, depletion and amortization	**(425,844)**	(418,830)
Total	**$ 353,130**	$ 331,401

During 1986, the Corporation approved the Austin, Nevada and Nome, Alaska gold properties for commercial development. In accordance with the Corporation's policy, $10.2 million of previously expensed exploration costs were capitalized, which will be amortized over the lives of the mines.

8. Debt Due Within One Year

Debt due within one year consisted of the following at December 31:

(in thousands)	1986	1985
Short-term borrowings	**$ 9,975**	$ 240
Current maturities of long-term debt	**2,541**	2,649
Total	**$12,516**	$2,889

The Corporation and its subsidiaries have unsecured short-term lines of credit with banks totaling approximately $116.0 million, of which $111.0 million was available at December 31, 1986. Interest is charged on borrowings under the unsecured lines at current money-market rates normally not in excess of the prime rate. Of the short-term lines of credit, facilities totaling $16.0 million are subject to periodic review by the banks and generally may be withdrawn at any time. Compensating balances, which are not legally restricted, are required under $15 million of the credit lines.

Terra's $100 million revolving credit arrangement, included in the above credit lines, is available for working capital requirements and terminates at the end of 1987. Restrictions on working capital, net worth and borrowings apply, and commitment fees of 3/8 of 1 percent are charged on the unused portion. The Corporation anticipates that this three-year facility will be replaced by a similar arrangement commencing in 1988.

9. Accrued and Other Liabilities

Accrued and other liabilities consisted of the following at December 31:

(in thousands)	1986	1985
Payroll and benefit costs	**$21,354**	$21,896
Customer deposits	**17,303**	15,949
Other	**42,880**	31,800
Total	**$81,537**	$69,645

10. Long-term Debt

Long-term debt consisted of the following at December 31:

(in thousands)	1986	1985
Revolving Credit Facilities	**$139,000**	$114,500
Unsecured Note, 12.85% due 1989	**25,000**	25,000
Unsecured Notes, 8¾% to 10% due 1987 to 1998	**22,500**	26,492
Industrial Development Bonds, at floating rates to 13½% due 1987 to 2011	**15,000**	15,000
Unsecured Debentures, 9% and 10½% due 1991 and 1995	—	40,957
Other	**3,693**	4,236
	205,193	226,185
Less current portion	**(2,541)**	(2,649)
Total	**$202,652**	$223,536

Sinking fund and principal payments for each of the five years 1987 through 1991 are $2.5 million, $2.6 million, $166.5 million, $2.6 million and $2.4 million, respectively. The $139.0 million of borrowings under the Corporation's revolving credit facility is included in the amount payable in 1989 when the facility expires.

In December 1986, HBMS repaid the outstanding balance of its 9 percent and 10½ percent unsecured debentures due in 1991 and 1995, respectively. A redemption premium of $0.7 million was incurred on the transaction.

During 1986, the Corporation and its principal lenders entered into a new $200 million three-year revolving credit agreement to replace its previous facility. The term will convert to two years if the Corporation is unsuccessful in replacing Terra's $100 million revolving credit arrangement at the end of 1987 (see Note 8). The new facility provides for floating-rate interest on outstanding borrowings under alternative rate-setting options based on prime, LIBOR and/or certificate of deposit rates and requires a commitment fee of ½ of 1 percent on unused portions. The Agreement requires, under certain circumstances, that the cash proceeds of sales of assets and issuances of stock and subordinated indebtedness by the Corporation and its subsidiaries be used to repay loans outstanding under the Agreement. The Agreement also contains tangible net worth, working capital, current ratio and long-term debt-to-tangible net worth ratio requirements as well as restrictions on acquisitions, dispositions, dividends and the incurrence of liens. During the year, the minimum and maximum interest rates on borrowings under this and the previous facility were 6.4 percent and 9.5 percent, respectively.

Interest rates on $55 million of borrowings under the Corporation's $200 million revolving credit agreement are covered by two interest rate swap agreements. These agreements fix the interest rate at 12.42 percent on $25 million of borrowings through March 1988, and at 11.9 percent on $30 million through February 1990.

At December 31, 1986, $85.1 million of a total of $229.1 million of long-term credit facilities in place was available for future use. The available facilities include $24.1 million relating to HBMS, expiring in 1988, with rates similar to the Corporate facilities.

11. Commitments and Contingencies

The Corporation and its subsidiaries are committed to various noncancelable operating leases for offices, mining and related equipment, and storage facilities expiring at various dates through 1998. Total minimum rental payments are as follows:

(in thousands)	
1987	$ 7,985
1988	6,351
1989	4,313
1990	3,167
1991	4,189
1992 and thereafter	21,583
Total	$47,588

Total rental expense under all leases, including short-term cancelable operating leases, was approximately $17.7 million, $14.2 million and $11.5 million for the years ended December 31, 1986, 1985 and 1984, respectively.

The Corporation is self-insured for a significant portion of ICI's compensation claims with respect to traumatic injury and Black Lung disease. Traumatic injury claims are charged to operations in the year of occurrence. Anticipated Black Lung claims are provided for based on actuarial studies.

At December 31, 1986, the Corporation is contingently liable for $17.2 million of debt of unconsolidated affiliates.

12. Stockholders' Equity

Holders of Common Shares and Trust Shares are entitled to one vote and holders of Class A Shares to one-tenth of one vote per share voting together as a class. Holders of Common Shares and Class A Shares are entitled to share equally, on a per share basis, in dividends and other distributions by the Corporation. Each Class A Share is convertible at any time, at the option of the holder, into one Common Share.

The Corporation allocates $1.00 per share upon the issuance of Common Shares and Class A Shares, and $5.56 per share upon the issuance of Trust Shares, to the respective capital accounts. However, for Common Shares issued upon the exchange of HBMS Special Exchangeable Non-Voting Shares (HBMS Special Shares) subsequent to August 31, 1986, the Corporation allocates $9.53 per share to the Common Share capital account, representing the average historical capitalization of the HBMS Special Shares.

The Trust Shares underlie the HBMS Special Shares on a share-for-share basis. Generally each HBMS Special Share is exchangeable, at the option of the holder, for one Common Share of the Corporation prior to the automatic exchange date (July 6, 1993, unless extended by HBMS). Holders of HBMS Special Shares generally have no voting rights in HBMS, but through the Trust Shares each HBMS Special Share has a vote equivalent to one Common Share of the Corporation. Holders of the HBMS Special Shares are entitled to receive from HBMS the equivalent of any dividend declared and paid on the Corporation's Common Shares.

In November 1984, the Corporation exchanged 12 million Common Shares and $20 million for an interest in a subsidiary that was sold in the Danville Sale (the Exchange Offer). In December 1984, the Corporation sold 10.8 million Common Shares and 9.2 million Class A Shares pursuant to separate offers to all holders of its Common Shares and HBMS Special Shares, and of its Class A Shares (the Subscription Offers). The Subscription Offers gave the holders the right to purchase, for $5.19 per share, two Common Shares for every three Common, HBMS Special and Class A Shares held. Minorco, the holder of the outstanding Class A Shares, was given the option to acquire Class A Shares instead of Common Shares. Minorco purchased 9.9 million of the Common Shares and all of the Class A Shares issued with respect to the Subscription Offers in order to maintain its voting and equity interests at the levels existing prior to the Exchange and Subscription Offers.

A summary of changes in the Corporation's capital stock issued and outstanding follows:

(in thousands)	Common Shares	Class A Shares	Trust Shares	Total Shares
December 31, 1983	11,828	8,722	9,699	30,249
Exchange Offer	12,000	—	—	12,000
Subscription Offer	10,815	9,176	—	19,991
Private placements	348	—	—	348
Exchanges of HBMS Special Shares	1,339	—	(1,339)	—
December 31, 1984	36,330	17,898	8,360	62,588
Private placements	989	—	—	989
Exchanges of HBMS Special Shares	555	—	(555)	—
December 31, 1985	37,874	17,898	7,805	63,577
Private placements	1,146	—	—	1,146
Exchanges of HBMS Special Shares: On or before August 31, 1986	1,569	—	(1,569)	—
Subsequent to August 31, 1986	27	—	(27)	—
Exercise of stock options	2	—	—	2
December 31, 1986	**40,618**	**17,898**	**6,209**	**64,725**

At December 31, 1986, 25.7 million Common Shares were reserved for issuance upon conversion of Class A Shares, exchange of HBMS Special Shares and exercise of employee stock options.

In 1985, the Corporation incurred an $18.6 million dilution in its investment in Danville. This was caused by a Danville subsidiary issuing stock at a per share amount that was less than Danville's carrying value. This dilution was reported as a reduction of the Corporation's paid-in surplus.

13. Stock Options

The Corporation's 1983 Stock Option Plan authorizes the granting, to key employees, of options to purchase a maximum of 1,530,000 Common Shares at fair market value on the date of grant. Options generally may not be exercised prior to one year or more than ten years from the date of grant. At December 31, 1986 and 1985, 65,060 and 462,500 Common Shares were available for grant. A summary of activity under the Plan follows:

	Shares Under Options	Price Range Per Share
Balance at December 31, 1984	562,860	$ 5.25 to $13.11
Granted	536,000	5.00 to 5.63
Expired	31,360	5.00 to 11.38
Balance at December 31, 1985	1,067,500	5.00 to 13.11
Granted	547,550	4.13
Expired	150,110	5.13 to 13.11
Exercised	2,000	5.00
Balance at December 31, 1986	**1,462,940**	**$ 5.00 to $13.11**
Exercisable at December 31:		
1984	24[illegible],860	$11.15 to $13.11
1985	539,750	$ 5.25 to $13.11
1986	**935,390**	**$ 5.00 to $13.11**

In addition, options to purchase 28,151 Common Shares at $Cdn 15.77 to 17.72 per share, expiring in 1987 and 1988, were outstanding at December 31, 1986 under the HBMS 1981 Share Option Plan. No additional options may be granted under this plan.

14. Interest and Other Income, net

Interest and other income, net consisted of the following for the years ended December 31:

(in thousands)	**1986**	1985	1984
Gain on sale of royalty interest	**$13,250**	$ —	$ —
Fertilizer service revenue	**5,955**	7,491	3,221
Interest income	**3,547**	10,819	9,459
Other, net	**504**	5,682	3,997
Total	**$23,256**	$23,992	$16,677

In September 1986, the Corporation sold its right to receive future royalty payments from a mining property and reported a $13.3 million gain on the transaction. Royalty income on this property in prior years was not significant.

In 1986, the Corporation provided $7.8 million to recognize a reduction in value of certain investments and for anticipated closure costs at certain operating locations.

15. Retirement Plans

The Corporation and its subsidiaries maintain noncontributory pension plans that cover substantially all salaried and hourly employees. Benefits are based on a final pay formula for the salaried plans and a flat-benefit formula for the hourly paid plans. The Corporation accrues pension costs based upon periodic independent actuarial valuations for each plan and funds these costs in accordance with statutory requirements.

Effective January 1, 1986, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 87, the effect of which reduced 1986 pension expense by $2.7 million. Prior years have not been restated in accordance with the provisions of the statement. Net periodic pension (credit) cost was approximately $(3.7) million in 1986, $0.6 million in 1985 and $2.7 million in 1984. Components of the 1986 credit included the following:

(in thousands)	
Current service cost	$ 3,108
Interest on projected benefit obligation	7,640
Actual return on assets	(9,715)
Net amortization and other	(4,707)
Total	$ (3,674)

As a result of investment gains and annuity purchases, $6.8 million, $11.8 million and $5.7 million of excess funds of certain Canadian plans reverted to HBMS in 1986, 1985 and 1984, respectively. In 1986, as a result of adopting the provisions of Statement of Financial Accounting Standards No. 88, the Corporation reported the unamortized portion of these asset reversions, which were attributable to the settlement of pension obligations, as the cumulative effect of a change in accounting principles. This resulted in income of $11.5 million, less a related income tax provision of $4.0 million. The pro forma effects of the accounting change on 1985 and 1984 have not been presented since the information would not be meaningful.

The pension reversions, net of amounts recognized in income in 1986 as a cumulative effect adjustment, unfunded accruals and excess plan assets of Canadian plans are being amortized over a ten-year period and had the effect of reducing pension expense by $2.0 million, $3.3 million and $1.7 million in 1986, 1985 and 1984, respectively. Changes in the rate of investment return and wage progression assumptions in certain domestic plans reduced 1984 pension expense by an additional $1.4 million.

The following table reconciles the plans' funded status to amounts recognized in the Corporation's Consolidated Statement of Financial Position at December 31, 1986:

(in thousands)	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:		
Vested benefit obligation	$(41,916)	$(30,429)
Accumulated benefit obligation	$(46,815)	$(33,787)
Projected benefit obligation	$(63,166)	$(34,998)
Plan assets at fair value, primarily in listed equities and fixed income securities	77,955	31,376
Funded status	14,789	(3,622)
Unrecognized net experience loss	8,085	2,930
Unrecognized net obligation at January 1, 1986	(35,446)	(12)
Pension liability recognized in the Consolidated Statement of Financial Position	$(12,572)	$ (704)

The assumed discount rate and the assumed rate of long-term per annum compensation increase used to determine the actuarial present value of benefit obligations were 8 percent and 6 percent, respectively. The expected long-term rate of return on plan assets used to determine 1986 pension expense was 9.5 percent.

As of January 1, 1985, the actuarial present value of accumulated plan benefits was $83.4 million, of which $75.6 million was vested, and plan assets available for benefits was $102.7 million. The amounts were determined under the prior method of pension accounting and were based on a rate of return of between 7 percent and 8 percent.

Pension expense for union employees covered by retirement plans administered by the Trustees of the United Mine Workers of America Health and Retirement Fund is not significant. The relative position with respect to plan assets and accumulated plan benefits in this multi-employer plan has not been determined.

The Corporation also provides health care and life insurance benefits for retired employees of certain domestic subsidiaries. Substantially all employees of these subsidiaries who reach normal retirement age while working for the Corporation become eligible for such benefits. The costs of

such benefits for approximately 1,000 retirees, along with the costs of similar benefits for approximately 3,000 active employees, are charged to expense as paid based on actual claims or related insurance coverage. The cost of providing these benefits totaled $9.1 million in 1986, $9.1 million in 1985 and $9.7 million in 1984.

16. Income Taxes

Prior to 1986, the Corporation was in a loss position on a consolidated basis for U.S. Federal income tax purposes and did not record future income tax benefits. In 1986, the Corporation reported a consolidated income tax provision of $96.7 million, primarily due to ILI's sale of assets. The Corporation offset its Federal income tax liability by utilizing a portion of its net operating loss carryforward in the fourth quarter of 1986. This benefit has been reported as an extraordinary item on the Consolidated Statement of Operations. Income taxes have not been provided on the unremitted earnings of subsidiaries not consolidated for income tax purposes since such earnings either are deemed to be permanently reinvested or are able to be remitted on a tax-free basis.

Components of the U.S. and foreign income tax provision (benefit) of continuing operations are as follows:

(in thousands)	1986	1985	1984
Current —U.S.	$71,451	$ 437	$ (526)
—Canadian	—	—	112
Deferred—U.S.	29,924	219	147
—Canadian	(4,652)	(22,681)	(3,763)
Total	$96,723	$(22,025)	$(4,030)

The above amounts for 1986 include ILI (see Note 6) but exclude a Canadian deferred tax provision of $4.0 million related to the income reported as the cumulative effect on prior years of a change in pension accounting and the Federal income tax benefit resulting from the utilization of a portion of the Corporation's net operating loss carryforward.

Deferred income taxes result from differences in the timing of deductions and recognition of income for financial reporting and income tax purposes. An analysis of the deferred income tax provision (benefit) is as follows:

(in thousands)	1986	1985	1984
Lease accounting	$ 7,637	$ —	$ —
Depreciation and depletion	5,898	(5,413)	(7,463)
Current and past losses	4,993	—	4,691
Amortization of mine development	4,081	2,915	3,229
Exploration expenditures	3,169	3,668	(1,766)
Recovery of pension assets	(1,491)	(3,580)	(2,184)
Restructuring provisions	—	(18,253)	—
Other	985	(1,799)	(123)
Total	$25,272	$(22,462)	$(3,616)

Income (loss) from continuing operations before income taxes is as follows:

(in thousands)	1986	1985	1984
United States	$ 49,203	$(172,609)	$(70,904)
Foreign	(17,319)	(65,684)	(7,903)
Total	$ 31,884	$(238,293)	$(78,807)

Reconciliation of the U.S. Federal statutory income tax rate to the effective income tax rate is as follows:

	1986	1985	1984
Statutory income tax (recovery) rate	46.0%	(46.0)%	(46.0)%
Asset basis adjustments	151.6	(0.8)	(2.2)
Non-deductible expenses	71.1	3.8	3.5
Canadian dividend	36.1	—	—
Capital gain	(7.5)	—	—
Non-taxable income	(7.0)	(0.5)	(0.1)
Acquisition adjustment	6.8	—	—
Foreign rate differential	3.8	(1.7)	(0.3)
Historical deferred tax credit rates	2.9	4.2	—
Unrecognized tax effect of losses	—	32.1	24.6
Taxable gain on exchange of investment in subsidiaries	—	—	17.7
Other	(0.4)	(0.3)	(2.3)
Effective income tax (recovery) rate	303.4%	(9.2)%	(5.1)%

At December 31, 1986, the Corporation had unrecorded net operating loss carryforwards for financial statement purposes of approximately $222 million and for tax purposes approximately $244 million, expiring in varying amounts from 1992 through 2000. It also had an unrecorded investment tax credit carryforward of approximately $15 million, expiring in varying amounts from 1989 through 2000 and an unrecorded capital loss carryforward of approximately $130 million, expiring in 1990.

Mining and Other Information (unaudited)

Mineral reserves are commercially recoverable quantities, estimated on the basis of geological, geophysical and engineering data. Proven reserves are those with a reasonably high degree of certainty of being mined from known deposits by either primary or improved methods. Probable reserves are less well defined than proven reserves. Estimates of reserves can increase or decrease as development and production occur, or as mining, economic or other conditions and technology change. Information regarding mineral reserves, production and sales prices of the Corporation's subsidiaries in the base metals, gold and coal segments, as well as revenues and related information regarding its agricultural products and services operations, is as follows:

Metals

(quantities in thousands)	1986	1985	1984	1983	1982
Mine Production—United States					
Copper Ore					
Ore and waste mined (tons)	**29,571**	42,033	41,082	38,442	37,327
Ore mined (tons)	**10,486**	17,106	15,411	14,724	15,455
Copper (%)	**0.574**	0.528	0.510	0.525	0.534
Zinc (%)	**—**	0.067	0.075	—	—
Gold Ore					
Nome placer materials processed (cu. yds.)	**335**	—	—	—	—
Gold (oz./cu. yd.)	**0.009**	—	—	—	—
Austin ore mined (tons)[1]	**55**	—	—	—	—
Gold (oz./ton)	**0.179**	—	—	—	—
Silver Ore					
Ore mined (tons)	**145**	162	338	278	210
Silver (oz./ton)	**3.87**	5.41	5.22	4.91	6.23
Mine Production—Canada					
Copper/zinc ore mined (tons)[1]	**1,699**	1,838	1,827	1,845	1,798
Copper (%)	**2.46**	2.36	2.47	2.25	2.13
Zinc (%)	**3.02**	2.68	2.48	2.60	2.76
Gold (oz./ton)	**0.044**	0.045	0.044	0.041	0.043
Silver (oz./ton)	**0.513**	0.547	0.631	0.501	0.529
Spodumene ore mined (tons)[1]	**19**	—	—	—	—
Lithia (%)	**3.01**	—	—	—	—
Metal Production					
United States					
Refined copper (lbs.)	**162,859**	168,113	169,608	162,245	152,376
Zinc in concentrates (lbs.)	**—**	21,996	23,071	—	—
Gold (oz.)	**7**	—	—	—	—
Silver (oz.)	**568**	881	1,737	1,271	1,224
Canada					
Refined copper (lbs.)	**136,545**	145,237	141,716	146,986	121,264
Slab zinc (lbs.)	**184,529**	186,238	174,908	163,480	122,865
Gold (oz.)	**66**	69	69	75	70
Silver (oz.)	**1,253**	1,390	1,320	1,311	1,360
Proven & Probable Mineral Reserves at December 31					
Active Underground Mines					
Flin Flon/Snow Lake-					
Underground (tons)[1]	**9,153**	11,379	13,630	14,216	17,280
Copper (%)	**2.34**	2.38	2.60	2.52	2.52
Zinc (%)	**4.93**	4.08	3.50	3.59	2.83
Silver (oz./ton)	**0.64**	0.64	0.57	0.59	0.52
Gold (oz./ton)	**0.048**	0.043	0.041	0.041	0.035
Tanco (tons)[1]	**1,650**	—	—	—	—
Lithia (% Li_2O)	**2.72**	—	—	—	—
Active Surface Mines and Properties					
Inspiration Copper (tons)	**122,700**[4]	240,002	250,703	189,695	191,529
Copper (%)	**0.57**	0.53	0.55	0.52	0.54
Nome Marine Placer (cu. yds.)	**16,500**	—	—	—	—
Gold (oz./cu. yd.)	**0.012**	—	—	—	—
Austin (tons)[1]	**792**	—	—	—	—
Gold (oz./ton)	**0.186**	—	—	—	—

Metals (Continued)

(quantities in thousands)	**1986**	1985	1984	1983	1982
Inactive Mines and Properties					
Flin Flon/Snow Lake (tons)	**3,628**	4,095	2,582	2,224	—
Copper (%)	**1.91**	1 89	1.49	1.73	—
Zinc (%)	**3.70**	3 56	2.27	1.74	—
Inspiration Copper-open pit (tons)	**129,200[4]**	—	—	[illegible]	115,500
Copper (%)	**0.53**	—	—	0.36	0 36
Inspiration Copper-underground (tons)	—	—	—	20,131	20,131
Copper (%)	—	—	—	1.84	1.84
Namew Lake (tons)	**2,824**	2,824	—	—	—
Nickel (%)	**2.44**	2.44	—	—	—
Copper (%)	**0.90**	0.90	—	—	—
Nome Marine Placer (cu. yds.)	**47,500**	—	—	—	—
Gold (oz./cu. yd.)	**0.012**	—	—	—	—
Farley Lake (tons)[1]	**539**	—	—	—	—
Gold (oz./ton)	**0.186**	—	—	—	—
Tom Valley (tons)	—	—	10,800	10,800	10,800
Zinc (%)	—	—	7.54	7 54	7 54
Average Market Price					
Copper (¢/lb.)[2]	**61.65**	60.99	61.32	71.90	65.82
Zinc (¢/lb.)[3]	**34.05**	35 46	41.74	34.73	33.73
Gold ($/oz.)[2]	**367.99**	317.36	360.36	424.18	376 23
Silver ($/oz.)[2]	**5.47**	6.14	8.15	11.46	7.95

(1) Corporation's percentage ownership of reserves and production.
(2) New York Commodity Exchange (Comex) prices.
(3) London Metal Exchange quoted cash prices
(4) Leachable copper reserves are included as active. The sulphide reserves have been reclassified to inactive.

Coal

(thousands of tons)	**1986**	1985	1984	1983	1982
Production					
Harman	**1,027**	1,149	911	287	640
Sovereign	**866**	772	616	380	426
Bailey	—	—	—	58	259
Wheelwright	**910**	841	738	424	425
Plateau Fuels	**19**	—	—	—	—
Total	**2,822**	2,762	2,265	1,149	1,750
Reserves					
Plateau Fuels[1]	**43,363**	—	—	—	—
Harman	**24,098**	24,686	24,582	25,183	25,434
Sovereign	**13,240**	14,278	14,770	15,270	15,692
Wheelwright	**19,962**	72,288	72,188	37,741	38,896
Bailey	—	—	—	7,020	7,217
Total	**100,663**	111,252	111,540	85,214	87,239
Average Market Price					
Coal ($/ton)	**$ 31.83**	$ 33.03	$ 32.34	$ 33.72	$ 40 41

(1) Reserves for years prior to 1986 were included as part of Wheelwright.

Agribusiness

(revenues in thousands)	**1986**	1985	1984	1983	1982
Total Revenues					
Fertilizers	**$220,910**	$232,098	$168,381	$120,257	$126,410
Crop Protection Products	**353,873**	291,468	171,688	140,841	157,008
Seed	**29,539**	27,220	19,492	13,919	11,949
Other	**31,762**	37,325	16,843	15,923	21,306
Total	**$636,084**	$588,111	$376,404	$290,940	$316,673
% from own production	**11.0**	13.1	29.2	24 9	24.3
Number of outlets	**247**	252	125	101	102

Selected Quarterly Financial and Stock Market Data (unaudited)

(in thousands, except per share data and stock prices)	March 31	June 30	Sept. 30	Dec. 31
1986				
Total revenues	**$220,844**	**$521,361**	**$208,561**	**$ 171,325**
Gross profit	**$ 4,836**	**$ 47,793**	**$ 14,398**	**$ (5,359)**
Income (loss) from continuing operations	**$ (25,913)**	**$ 12,998**	**$ 4,619**	**$ (56,543)**
Income (loss) from discontinued operations	—	—	—	**(3,351)**
Income (loss) before extraordinary item and cumulative effect adjustment	**$ (25,913)**	**$ 12,998**	**$ 4,619**	**$ (59,894)**
Net income (loss)	**$ (18,365)[a]**	**$ 12,998**	**$ 4,619**	**$ 38,594[b]**
Earnings (loss) per share from:				
Continuing operations	**$ (0.41)**	**$ 0.20**	**$ 0.07**	**$ (0.87)**
Discontinued operations	—	—	—	**(0.05)**
Total before extraordinary item and cumulative effect adjustment	**$ (0.41)**	**$ 0.20**	**$ 0.07**	**$ (0.92)**
Total	**$ (0.29)[a]**	**$ 0.20**	**$ 0.07**	**$ 0.61[b]**
Common stock price:				
High	**$ 6.63**	**$ 6.50**	**$ 5.38**	**$ 4.88**
Low	**$ 4.88**	**$ 4.63**	**$ 4.13**	**$ 4.25**
1985				
Total revenues	$207,673	$494,301	$203,113	$ 174,961
Gross profit	$ (5,163)	$ 51,771	$ 4,629	$ 527
Income (loss) from continuing operations	$ (27,883)	$ 14,873	$ (26,486)	$(176,772)[c]
Income (loss) from discontinued operations	(1,645)	3,474	(2,311)	(74,697)
Net income (loss)	$ (29,528)	$ 18,347	$ (28,797)	$(251,469)
Earnings (loss) per share from:				
Continuing operations	$ (0.44)	$ 0.23	$ (0.42)	$ (2.80)[c]
Discontinued operations	(0.03)	0.06	(0.04)	(1.18)
Total	$ (0.47)	$ 0.29	$ (0.46)	$ (3.98)
Common stock price:				
High	$ 5.50	$ 6.13	$ 5.50	$ 5.13
Low	$ 3.88	$ 4.88	$ 4.25	$ 4.25

(a) Restated to reflect the $7.5 million ($0.12 per share) cumulative effect of a change in accounting for pensions. See Note 15 to the Consolidated Financial Statements.

(b) Includes $98.5 million ($1.53 per share) extraordinary benefit of net operating loss carryforward.

(c) Includes $142.2 million, net of related tax benefits, ($2.23 per share) of restructuring provisions.

Stockholders and Dividends

The Corporation's Common Shares are traded principally on the New York Stock Exchange. Its Class A Shares are not traded publicly and the HBMS Special Shares are not traded publicly in the United States. The Class A Shares are convertible into, and HBMS Special Shares are exchangeable for, Common Shares of the Corporation.

At February 28, 1987, 40.7 million Common Shares were outstanding and held by 7,062 stockholders, 17.9 million Class A Shares were outstanding and held by a single stockholder, and 6.2 million Trust Shares were outstanding and held by the trustee thereof. In addition, 10.0 million HBMS Special Shares were outstanding and held by 4,003 stockholders, including 3.9 million HBMS Special Shares held by the Corporation.

Financial Summary

(in thousands, except per share data)	1986	1985	1984	1983[a]	1982[a]
Financial Position					
Working capital	**$ 124,902**	$ 172,141	$ 156,106	$ 145,711	$ 76,899
Total assets	**780,260**	730,505	1,492,128	1,111,131	1,092,274
Long-term debt	**202,652**	223,536	326,099	350,901	387,998
Stockholders' equity	**316,523**	270,282	583,914	518,011	402,762
Results of Operations					
Revenues	**$1,122,091**	$1,080,048	$ 860,729	$ 751,583	$ 736,102
Costs and expenses[b]	**1,175,751**	1,318,341	939,536	855,469	846,929
Equity in earnings before income taxes of an unconsolidated subsidiary	**85,544**	—	—	—	—
Income tax provision (benefit)	**96,723**	(22,025)	(4,030)	(10,040)	(23,338)
Loss from continuing operations	**(64,839)**	(216,268)	(74,777)	(93,846)	(87,489)
Discontinued operations	**(3,351)**	(75,179)	(26,514)	11,189	15,147
Extraordinary items	**98,488**	—	—	—	44,979
Cumulative effect of a change in accounting principle	**7,548**	—	—	—	—
Net income (loss)	**$ 37,846**	$ (291,447)	$ (101,291)	$ (82,657)	$ (27,363)
Earnings (loss) per share:					
Continuing operations	**$(1.01)**	$(3.43)	$(2.30)	$(4.34)	$(5.37)
Discontinued operations	**(0.05)**	(1.19)	(0.81)	0.52	0.92
Extraordinary items	**1.53**	—	—	—	2.77
Cumulative effect of a change in accounting principle	**0.12**	—	—	—	—
Total	**$0.59**	$(4.62)	$(3.11)	$(3.82)	$(1.68)
Capital Expenditures					
Continuing operations	**$ 50,024**	$ 43,047	$ 42,292	$ 46,987	$ 88,804
Discontinued operations	**—**	56,132	46,389	24,786	27,705
Total	**$ 50,024**	$ 99,179	$ 88,681	$ 71,773	$ 116,509

(a) Effective July 6, 1983, the Corporation, HBMS and Minorco completed a reorganization in which the joint interests of HBMS and Minorco in the Inspiration Resources group of companies were consolidated into Inspiration Resources Corporation, a U.S. public company. HBMS became a wholly owned subsidiary of the Corporation and Minorco received an equity interest in the Corporation. The financial data for 1983 and 1982 are presented as if the reorganization had been in effect since January 1, 1982.

(b) Includes restructuring provisions of $160.5 million, $15.5 million and $5.5 million in 1985, 1984 and 1983, respectively.

Corporate Directory

Directors

Edward M. Carson[1,3]
President
First Interstate Bancorp

Richard R. Davis
Senior Vice President and General Counsel
Inspiration Resources Corporation

William T. Dible
President and Chief Executive Officer (Retired)
Terra International, Inc.

Adrian M. Doull
Executive Vice President and
Chief Operating Officer
Inspiration Resources Corporation
(Until 4/30/87)

John J. Ellis
Senior Vice President, Mining
Inspiration Resources Corporation

Jack A. Holmes
Technical Director
Anglo American Corporation of South Africa
Limited
(mining finance company)

Basil T.A. Hone[2]
Vice President (Retired)
Metals Division, Union Carbide Corporation
(chemical, industrial gases and specialty products company)

J. Blair Howkins
Senior Vice President, Technical
Inspiration Resources Corporation

Robert H. Jones[3]
Chairman of the Board
Investors Group Inc.
(finance company)

Burton M. Joyce
Senior Vice President and Chief Financial Officer
Inspiration Resources Corporation

Allen T. Lambert[2]
Chairman of the Board
Hudson Bay Mining and Smelting Co., Limited

J. Roger B. Phillimore[1,2]
Director
Minerals and Resources Corporation Limited
(investment company)

Reuben F. Richards[1]
Chairman of the Board, President and
Chief Executive Officer
Inspiration Resources Corporation

Henry R. Slack[1,3]
President
Minerals and Resources Corporation Limited
(investment company)

Alan Sweatman
Partner
Thompson, Dorfman, Sweatman
(law firm)

[1]Member, Executive Committee
[2]Member, Audit Committee
[3]Member, Personnel Committee

Officers

Reuben F. Richards
Chairman of the Board,
President and Chief Executive Officer

Adrian M. Doull
Executive Vice President and
Chief Operating Officer
(Until 4/30/87)

Richard R. Davis
Senior Vice President and General Counsel

John J. Ellis
Senior Vice President, Mining

J. Blair Howkins
Senior Vice President, Technical

Burton M. Joyce
Senior Vice President and Chief Financial Officer

Clifford H. R. DuPree
Vice President, Corporate Secretary and
Assistant General Counsel

John H. Melville
Vice President and Treasurer

W. Mark Rosenbury
Vice President and Controller

Senior Management of Subsidiary Companies

Terra International, Inc.

Burton M. Joyce
President and Chief Executive Officer

Allen L. Rouse
Executive Vice President and Chief
Operating Officer

Paul D. Foster
Vice President, Crop Protection Products

Martin H. Gross
Vice President, Wholesale Sales

Gene A. Hallauer
Vice President, Human Resources

Charles O. McKenzie
Vice President, Marketing-CPP South

Francis G. Meyer
Vice President and Controller

Charles G. Nevaril
Vice President, Information Systems

Thomas M. Rooney
Vice President, Midwest Retail

R. Oliver Simmons
Vice President, Finance

Jane A. Rice
Corporate Secretary

Inspiration Consolidated Copper Company

John J. Ellis
Chairman, President and
Chief Executive Officer

Jacob Timmers
Senior Vice President and
Chief Operating Officer

Robert F. Morison
Vice President, Finance/Administration
and Secretary

Robert A. Prescott
Vice President and General Manager

Gary K. Ryan
Vice President, Controller and Treasurer

Inspiration Gold Incorporated

Richard R. Davis
Chairman of the Board

John J. Ellis
Vice Chairman

Jacob Timmers
President and Chief Executive Officer

Robert F. Morison
Vice President, Finance/Administration
and Secretary

Gary K. Ryan
Vice President, Controller and Treasurer

Hudson Bay Mining and Smelting Co., Limited

Allen T. Lambert
Chairman of the Board

John J. Ellis
Deputy Chairman and Chief Executive Officer

Lloyd R. Nilsen
President and Chief Operating Officer

Stuart R. Horne
Senior Vice President, Investments

Ronald W. Watt
Vice President, Finance and Treasurer

Yasmin Sunderji
Secretary

Inspiration Leasing Inc.

Michael B. Smith
President and Chief Executive Officer

Clifford H. R. DuPree
Vice President and Secretary

John H. Melville
Vice President and Treasurer

Inspiration Coal Inc.

John J. Ellis
President and Chief Executive Officer

T. Michael Young
Executive Vice President

C. Allen Cook
Vice President, Coal Preparation

John E. Nypaver
Vice President, Production

Joseph A. Gaviola
Vice President, Marketing and Sales

Michael A. Fletcher
Vice President, Finance and Treasurer

Gary W. Callahan
Secretary and General Counsel

Inspiration Resources Marketing Corporation

Harold S. Schwartz
President and Chief Executive Officer

W. Michael Fien
Senior Vice President, Copper and Trading

Brian E. Disbury
Vice President, Raw Materials

Virginia M. Hauser
Vice President, Copper Sales

HBMS Marketing Division

John D. Purvis
Vice President, Zinc

Alan G. Bolton
Assistant Vice President, Zinc

Corporate Data

Inspiration Resources Corporation

Executive Offices:
250 Park Avenue
New York, NY 10177
Telephone: (212) 503-3100
Telex: 291533 IRC UR

Subsidiary Companies

Hudson Bay Mining and Smelting Co., Limited
P.O. Box 28
Toronto-Dominion Centre
Toronto, Ontario, Canada
M5K 1B8
Telephone: (416) 362-2192

Inspiration Coal Inc.
Suite 475
9111 Cross Park Drive
Knoxville, Tennessee 37923
Telephone: (615) 690-9109

Inspiration Consolidated Copper Company
P.O. Box 1559
Globe-Miami Highway
Claypool, Arizona 85532
Telephone: (602) 473-7000

Inspiration Gold Incorporated
Suite G350
8655 E. Via de Ventura
Scottsdale, Arizona 85258
Telephone: (602) 998-0888

Inspiration Leasing Inc.
250 Park Avenue
New York, NY 10177
Telephone: (212) 503-3100

Inspiration Resources Marketing Corporation
250 Park Avenue
New York, NY 10177
Telephone: (212) 503-3100

Terra International, Inc.
Terra Centre
600 Fourth Street
Sioux City, Iowa 51101
Telephone: (712) 277-1340

Annual Meeting

The annual meeting of stockholders will be held at 9:30 a.m. on May 12, 1987 at Chemical Bank, 277 Park Avenue, New York, New York.

Stock Exchange

Inspiration Resources Corporation Common Shares (ticker symbol: IRC) are listed on the New York and Toronto Stock Exchanges. HBMS Special Shares (symbol: HBM.ST) are listed on the Toronto Stock Exchange.

HBMS Special Shares

HBMS Special Shares can be used as an additional vehicle for the purchase of Inspiration Resources Common Shares. By their terms, the HBMS Special Shares are exchangeable on a one-for-one basis into IRC Common Shares at the holder's option. Please refer to Note #12 on page 32 for additional information.

Newspaper Stock Listings

IRC Common (NYSE): Insp Rs
IRC Common (TSE): Insprtn
HBMS Special Shares (TSE):
H Bay Mn a

Transfer Agents and Registrars

Common Shares:
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Common Shares and HBMS Special Shares:
Montreal Trust Company
15 King Street West
Toronto, Ontario, Canada M5H 1B4

Questions concerning the transfer of shares or lost certificates may be directed to the Transfer Agents and Registrars.

SEC Form 10-K

Further information concerning Inspiration Resources Corporation is contained in the Form 10-K that is filed with the Securities and Exchange Commission. You may obtain a copy of the Form 10-K annual report by writing the Corporate Affairs Department at the address below

Investor Relations

Stockholders and members of the investment community seeking information about Inspiration Resources should direct their inquiries to:

James M. Simon
Director, Corporate Affairs
Inspiration Resources Corporation
250 Park Avenue
New York, New York 10177
Telephone: (212) 503-3115

Independent Accountants

Price Waterhouse
New York, New York

Design: Will Whiteley Design, Inc., NYC

INSPIRATION
RESOURCES
CORPORATION

250 Park Avenue
New York, NY 10177
(212) 503-3100

INSPIRATION
RESOURCES
CORPORATION

250 Park Avenue
New York, N.Y. 10177

INSPIRATION

March 31, 1987

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders of the Corporation to be held at 9:30 a.m. on Tuesday, May 12, 1987, in the seventh floor auditorium of Chemical Bank, 277 Park Avenue, New York, New York.

The accompanying Notice of Meeting and Proxy Statement describe the matters to be considered and voted upon at the Meeting. In addition to consideration of these matters, there will be a report to stockholders on the affairs of the Corporation, and stockholders will have an opportunity to discuss matters of interest concerning the Corporation.

We hope all stockholders of the Corporation and of Hudson Bay Mining and Smelting Co., Limited will be able to attend the Meeting. If you plan to attend, please check the appropriate box on your proxy or voting directions card.

Whether or not you plan to attend the Meeting personally, it is important that you be represented. To ensure that your vote will be received and counted, please promptly complete, date and return your proxy or voting directions card in the enclosed return envelope.

Sincerely yours,

R. F. Richards

Reuben F. Richards
Chairman of the Board, President and
Chief Executive Officer

INSPIRATION
RESOURCES
CORPORATION

250 Park Avenue
New York, N.Y. 10177

INSPIRATION

NOTICE OF 1987 ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders:

The Annual Meeting of Stockholders of Inspiration Resources Corporation (the "Corporation") will be held in the seventh floor auditorium of Chemical Bank, 277 Park Avenue, New York, New York, on Tuesday, May 12, 1987 at 9:30 a.m., New York time, for the following purposes:

(a) to elect Directors of the Corporation;

(b) to consider and vote upon the following proposals described in the attached Proxy Statement:

1. Proposal 1 to ratify the selection by the Board of Directors of the firm of Price Waterhouse as independent accountants for the Corporation for 1987;

2. Proposal 2 to approve the 1987 Stock Incentive Plan of the Corporation; and

(c) to transact such other business as may properly come before the Meeting.

Only stockholders of record of the Corporation's Common Shares, Class A Shares and Trust Shares (which are held on behalf of the holders of Hudson Bay Mining and Smelting Co., Limited Special Shares) at the close of business on March 10, 1987 are entitled to notice of, and to vote at, the Meeting.

C.H.R. DuPree
Vice President, Corporate Secretary and
Assistant General Counsel

March 31, 1987

PROXY STATEMENT

General

The Annual Meeting of Stockholders of Inspiration Resources Corporation (the "Corporation") will be held in the seventh floor auditorium of Chemical Bank, 277 Park Avenue, New York, New York, on Tuesday, May 12, 1987 at 9:30 a.m., New York time.

The principal executive offices of the Corporation are located at 250 Park Avenue, New York, N.Y. 10177. This proxy statement and the accompanying proxy are first being sent or given to stockholders on or about March 31, 1987.

The accompanying proxy is solicited by the Board of Directors of the Corporation. It may be revoked by written notice given to the Corporate Secretary of the Corporation at any time before being voted. Proxies in this form, properly executed, duly returned to the Corporation and not revoked, will be voted for the election of Directors (except to the extent that authority therefor is withheld), and on the Proposals described in this proxy statement, in accordance with the instructions in the proxy. The Board of Directors is not aware at the date hereof of any matter proposed to be presented at the Meeting other than the election of Directors and Proposals 1 and 2. If any other matter is properly presented, the persons named in the accompanying form of proxy will have discretionary authority to vote thereon according to their best judgment. Presence at the meeting does not of itself revoke the proxy.

Securities Entitled to Vote

The only securities entitled to be voted at the Meeting are the Corporation's Common Shares, Class A Shares and Trust Shares, and only holders of record at the close of business on March 10, 1987 (the "record date") are entitled to vote. The Common Shares and the Trust Shares are each entitled to one vote per share and the Class A Shares are entitled to one-tenth of a vote per share, all voting together as a single class. Outstanding Trust Shares are held by Montreal Trust Company as trustee (the "Trustee") for the holders of the Special Exchangeable Non-Voting Shares ("Special Shares") of Hudson Bay Mining and Smelting Co., Limited ("HBMS"), a subsidiary of the Corporation, all of whose voting stock is beneficially owned by the Corporation.

HBMS Special Shares have no general voting rights in HBMS. Instead, each HBMS Special Share that has not been exchanged carries voting rights in the Corporation equivalent to one Common Share of the Corporation (*i.e.*, the number of Common Shares for which such HBMS Special Share was exchangeable on the record date). Each holder of record of HBMS Special Shares on the record date is entitled to direct the Trustee either (i) to vote the number of Trust Shares equal to the number of HBMS Special Shares held of record by such HBMS Special Share holder on the record date or (ii) to deliver a proxy in favor of such holder enabling such holder to attend the Meeting personally and to vote the number of Trust Shares equal to the number of HBMS Special Shares held of record by such holder on the record date. The Trustee will vote Trust Shares only in accordance with proper directions received from holders of HBMS Special Shares and will not vote Trust Shares as to which no proper directions are received. Directions received by the Trustee may be revoked by written notice given to the Trustee before the subject Trust Shares are voted. An authorized representative of the Trustee is expected to be present at the meeting.

On March 10, 1987, 40,767,501 Common Shares and 17,898,292 Class A Shares were outstanding, and 6,123,635 Trust Shares were outstanding, underlying the same number of HBMS Special Shares.

ELECTION OF DIRECTORS

Nominees

The Board of Directors consists of 14 members, who are elected to hold office until the next Annual Meeting or until their successors are duly elected and qualified. The affirmative vote of a plurality of the combined votes cast by the holders of Common Shares, Class A Shares and Trust Shares voting thereon is necessary to elect a Director. If no contrary indication is made, proxies in the accompanying form are to be voted for the nominees named below or, in the event any such nominee is not a candidate or is unable to serve as a Director at the time of the election (which is not now expected), for any nominee who shall be designated by the Board of Directors to fill such vacancy. All nominees named below are incumbent members of the Board of Directors. Set forth below opposite the name and age of each nominee are his present positions and offices with the Corporation, his principal occupations during the past five years, and the year in which he was first elected a Director of the Corporation.

Name and age	Present positions and offices with the Corporation and principal occupations and positions during the past five years	Year first elected Director
Edward M. Carson (57)	President and Director, First Interstate Bancorp since January 1985; President and Chief Executive Officer and Director of First Interstate Bank of Arizona, N.A. prior thereto.	1983
Richard R. Davis (50)	Senior Vice President and General Counsel of the Corporation since July 1983; Partner, Chadbourne, Parke, Whiteside & Wolff (law firm) prior thereto.	1983
William T. Dible (61)......	Retired; Senior Vice President, Agribusiness of the Corporation from March 1986 to December 1986 and President and Chief Executive Officer of Terra International, Inc. (agricultural products and services) until December 1986.	1986
John J. Ellis (51)	Senior Vice President, Mining of the Corporation since March 1986; President and Chief Executive Officer of Inspiration Consolidated Copper Company since November 1983; Vice Chairman of Inspiration Gold Incorporated since May 1986; President and Chief Executive Officer of Inspiration Gold from November 1983 to May 1986; Vice President, Inspiration Gold prior thereto.	1986
Jack A. Holmes (56)	Executive Director and Technical Director of Anglo American Corporation of South Africa Limited (mining finance company); Alternate Director of Minerals and Resources Corporation Limited since September 1983.	1983
Basil T. A. Hone (60)	Retired; Vice President, Metals Division of Union Carbide Corporation (chemicals, industrial gases and specialty products company) until September 1984.	1986
J. Blair Howkins (55)	Senior Vice President, Technical of the Corporation since March 1986, Senior Vice President and Group Executive thereof from September 1985 to March 1986 and Senior Vice President, Operations thereof from July 1983 to September 1985; Executive Vice President of HBMS from December 1982 to June 1983; Senior Vice President, Corporate and Exploration of HBMS prior thereto.	1981
Robert H. Jones (62)	Chairman of the Board, Investors Group Inc. (a financial services company) since October 1986; Chairman of the Board, thereof from April 1981 to September 1986 and Chief Executive Officer thereof from April 1981 to May 1985.	1983

Name and age	Present positions and offices with the Corporation and principal occupations and positions during the past five years	Year first elected Director
Burton M. Joyce (45)	Senior Vice President and Chief Financial Officer of the Corporation since July 1986 and President and Chief Executive Officer of Terra since January 1987; Assistant to Chief Financial Officer, United Technologies Corporation ("UTC") (an aerospace, defense, building and automotive products company), from October 1985 to June 1986; Executive Vice President, Mostek Corporation (a UTC subsidiary) from April 1985 to September 1985; Vice President-Investor Relations of UTC from July 1984 to March 1985; Executive Vice President, European Operations, Essex Group (a UTC subsidiary) prior thereto.	1986
Allen T. Lambert (75)	Chairman of the Board of HBMS since August 1983; Director of companies; Director of Toronto-Dominion Bank until January 1982 and former Chairman of the Board thereof; Chairman of the Board of Trilon Financial Corporation since November 1982; Chairman of the Board of London Life Insurance Co. since March 1983; Chairman of the Board of Wellington Insurance Co. since January 1985.	1983
J. Roger B. Phillimore (37)	Director of Minerals and Resources Corporation Limited since November 1984 and Vice President, Administration thereof from September 1981 to May 1985.	1983
Reuben F. Richards (57) ...	Chairman of the Board and Chief Executive Officer of the Corporation since December 1982 and President thereof since July 1983; President and Chief Executive Officer of HBMS from December 1982 to June 1983; Executive Vice President of Citibank, N.A. prior thereto.	1982
Henry R. Slack (37)	President of Minerals and Resources Corporation Limited since September 1985 and Director thereof since October 1982; Executive Director of Anglo American Corporation of South Africa Limited since June 1983; Executive Assistant to the Chairman thereof prior to January 1983.	1983
Alan Sweatman (66)	Partner, Thompson, Dorfman, Sweatman (law firm).	1983

In addition, Mr. Carson is a director of Ramada Inns, Inc.; Mr. Jones is a director of Great West Life Assurance Co. and TransCanada PipeLines Limited; Mr. Lambert is a director of Atico Financial Corporation, Dome Mines Limited and Dome Petroleum Limited; Mr. Phillimore is a director of Engelhard Corporation; Mr. Richards is a director of Adobe Resources Corporation, Ecolab Inc., Engelhard Corporation, Potlatch Corporation and Salomon Inc; Mr. Slack is a director of Adobe Resources Corporation, Engelhard Corporation and Salomon Inc; and Mr. Sweatman is a director of Inter-City Gas Corporation.

Board of Directors and Committees

During the Corporation's last fiscal year, its Board of Directors held four meetings. During periods that each incumbent member of the Board of Directors of the Corporation served during the Corporation's last fiscal year, each member, other than Mr. Slack, attended at least 75% of the aggregate of all meetings of the Board of Directors and all meetings of committees of the Board of Directors of which he was a member.

The Board of Directors of the Corporation has an Audit Committee, an Executive Committee and a Personnel Committee. The Board of Directors does not have a nominating committee. The Audit Committee, which met twice in 1986, is comprised of Messrs. Lambert, Hone and Phillimore. Its

functions include recommending annually to the Board of Directors a firm of independent accountants to audit and review the Corporation's books and records and the scope of such firm's audit, reviewing reports and recommendations and fees of the Corporation's independent accountants, reviewing the scope of all internal audits and reports and recommendations in connection therewith and reviewing non-audit services provided by the Corporation's independent accountants.

The Executive Committee, which held one meeting last year, consists of Messrs. Carson, Phillimore, Richards and Slack. The Executive Committee is authorized to exercise, to the extent permitted by law, all the power and authority of the Board of Directors in the management of the Corporation between meetings of the Board.

The Personnel Committee, which met three times during the last year, is comprised of Messrs. Carson, Jones and Slack. Its functions include performance of the duties of the committees that administer certain employee benefit plans, recommendation to the Board of Directors as to compensation to executive officers and establishment of compensation administration guidelines for the Corporation and its subsidiaries.

Generally, each Director who is not an officer or employee of the Corporation or of one of its subsidiaries receives an annual retainer of $10,000 for services as a Director. In addition, such Directors receive a fee of $600 for each Board or Committee meeting attended and are reimbursed their expenses of attending such meetings.

Equity Security Ownership

Principal Stockholders. The following table shows, based on information received by the Corporation from or on behalf of such persons, the ownership, as of January 31, 1987, of the Corporation's securities by the only persons known to the Corporation to be the beneficial owners of more than five percent of any class of the Corporation's voting securities.

Name and address of beneficial owner	Title of class	Amount and nature of beneficial ownership	Percentage of class	Percentage of total voting power	Percentage of total equity
Minerals and Resources Corporation Limited[1] P.O. Box HM 650 Hamilton HMCX Bermuda	Common Shares	19,257,433, sole voting and investment power	47.3%	43.2%	57.3%
	Class A Shares	17,898,292, sole voting and investment power	100.0%		
Olympic Capital Management, Inc. 3008 Rainier Tower Seattle, Washington 98101	Common Shares	3,689,373, sole voting and investment power	9.1%	7.5%	5.7%
Robert E. Torray & Company Incorporated 6610 Rockledge Drive Suite 450 Bethesda, Maryland 20817	Common Shares	1,763,768, sole voting and investment power 369,400, sole investment power	5.2%	4.4%	3.3%

(1) The shares beneficially owned by Minerals and Resources Corporation Limited ("Minorco") are held of record by a wholly owned subsidiary.

Through its beneficial ownership of Common Shares and Class A Shares, Minorco owns approximately 57% of the equity of the Corporation and an aggregate voting interest of approximately 43% in the Corporation. The Class A Shares are convertible at any time at the option of the holder into the same number of Common Shares. If Minorco were to convert its Class A Shares into Common Shares, Minorco's voting interest in the Corporation would increase to its equity interest of 57%. However, Minorco has informed the Corporation that it does not currently intend to exercise its conversion rights, except to maintain a voting interest in the Corporation of slightly less than 50%.

Minorco is an investment company the capital stock of which is controlled, in part, as follows: approximately 39%, directly or through subsidiaries, by Anglo American Corporation of South Africa Limited ("Anglo American"), a publicly held mining and finance company; approximately 21%, directly or through subsidiaries, by De Beers Consolidated Mines Limited ("De Beers"), a publicly held diamond mining and investment company; and approximately 4% by an affiliated company. Approximately 38% of Anglo American is controlled, directly or through subsidiaries, by De Beers. Approximately 34% of De Beers is controlled, directly or through subsidiaries, by Anglo American. Harry F. Oppenheimer is a director of De Beers and Minorco. He, with members of his family, including Mr. Slack, has indirect partial interests in approximately 7% of the outstanding shares of Minorco and 8% of the outstanding shares of Anglo American. Also, Messrs. Hone and Phillimore beneficially owned respectively 3,600 and 30,500 Minorco Ordinary shares, and Messrs. Holmes, Hone, Phillimore and Slack beneficially owned respectively 29,000, 1,000, 1,500 and 1,000 Anglo American Ordinary shares, each constituting less than one percent of the total issued and outstanding shares of the issuer.

Directors and Officers. The following table shows, as to the Directors of the Corporation individually and the Directors and officers of the Corporation as a group, the equity securities of the Corporation and its subsidiaries that were beneficially owned by them as of January 31, 1987.

Name	Number of Common Shares Beneficially Owned(1)
R. R. Davis	61,015(2)
W. T. Dible	43,194(2)
A. M. Doull	63,994(2)
J. J. Ellis	42,340(2)
B. T. A. Hone	2,000
J. B. Howkins	65,128(2)
R. H. Jones	158
B. M. Joyce	380
A. T. Lambert	6,819(3)
R. F. Richards	219,927(2)
H. R. Slack	250
A. Sweatman	56(3)
Directors and officers as a group (17 persons)	535,068(2)(3)

(1) Except as otherwise noted herein, each Director or officer had sole voting and investment power over the shares shown as beneficially owned and each Director individually and the Directors and officers as a group owned less than one percent of the total issued and outstanding shares of each of the Corporation and its subsidiaries.

(2) The numbers of shares shown as beneficially owned by Messrs. Davis, Dible, Doull, Ellis, Howkins, and Richards and by all Directors and officers as a group include 56,240, 40,406, 61,240, 38,620, 60,932, 213,865, and 497,923 Common Shares, respectively, as to which such person or group had the right to acquire beneficial ownership pursuant to exercise, on or before April 1, 1987, of employee stock options. *See* EXECUTIVE COMPENSATION.

(3) The numbers of shares shown as beneficially owned by Messrs. Lambert and Sweatman represent Common Shares underlying HBMS Special Shares.

EXECUTIVE COMPENSATION

Cash Compensation

There is set forth below information concerning the cash compensation for services rendered in all capacities to the Corporation and its subsidiaries during the fiscal year ended December 31, 1986 paid to each of the five most highly compensated executive officers of the Corporation and all executive officers as a group.

(A) Name of individual or number in group	(B) Principal capacities in which served	(C) Cash compensation
Reuben F. Richards	Chairman of the Board, President and Chief Executive Officer and Director of the Corporation	$ 550,000(1)
Adrian M. Doull	Executive Vice President and Chief Operating Officer and Director of the Corporation(2)	$ 319,475
Richard R. Davis	Senior Vice President and General Counsel and Director of the Corporation	$ 322,600
William T. Dible	Senior Vice President, Agribusiness, of the Corporation and President of Terra International, Inc.(3) and Director of the Corporation	$ 297,308
John J. Ellis	Senior Vice President, Mining, and Director of the Corporation	$ 313,065
All executive officers as a group (14 persons)		$3,124,489(4)

(1) Does not include deferred compensation credited for future payment under a deferred compensation agreement described below.

(2) Mr. Doull has announced his resignation, effective April 30, 1987.

(3) Mr. Dible retired from these capacities, effective December 31, 1986.

(4) Includes $1,311,145 paid to six persons who are no longer executive officers of the Corporation and one person who will cease to be an executive officer, effective April 30, 1987.

Other Compensation

During 1986, the following executive officers received compensatory personal benefits, such as additional life insurance, financial counseling and low-interest relocation mortgage loans, in approximately the amounts stated: Mr. Doull, $30,241 and Mr. Richards, $34,025. The Corporation's incremental cost with respect to personal benefits provided to other named executive officers and to all executive officers as a group is less than the minimum amounts required to be reported pursuant to Securities and Exchange Commission rules.

Compensation Pursuant to Plans

1983 Stock Option Plan. The 1983 Stock Option Plan authorizes the grant to key employees of the Corporation and its subsidiaries, selected by a Stock Option Committee of Directors who are not employees, of options intended to qualify as "incentive stock options" under the Internal Revenue Code and options that are not intended so to qualify. Under the 1983 Stock Option Plan, there may be granted incentive stock options to purchase, and nonqualified options to purchase, or stock appreciation rights to receive a maximum of 1,530,000 Common Shares. Under the 1983 Stock Option Plan (i) the option price per share may not be less than the fair market value at the time of grant, (ii)

options generally may not be exercised prior to one year or more than 10 years from the date of grant, (iii) no option or stock appreciation right may be granted after August 2, 1988 and (iv) payment of the option price may be made in cash, Common Shares held for at least one year, or a combination thereof. Stock appreciation rights may be granted in conjunction with the grant of an option, either at the time of the option grant or thereafter during its term in respect of all or part of such option.

As of December 31, 1986, approximately 135 employees of the Corporation and its subsidiaries were eligible to receive options and 130 employees held options under the 1983 Stock Option Plan. Nonqualified stock options to purchase a total of 547,550 Common Shares were granted in 1986 under the 1983 Stock Option Plan at the per share exercise price of $4.13, with 284,500 shares granted to all executive officers as a group, including 60,000 to Mr. Richards, 40,000 to Mr. Doull, 25,000 to Mr. Davis, 20,000 to Mr. Dible and 30,000 to Mr. Ellis.

1981 Share Option Plan of HBMS. The HBMS 1981 Share Option Plan provides for the grant to key employees of HBMS and its subsidiaries, selected by a Share Option Committee, of options to purchase up to 250,000 HBMS Special Shares (subject to adjustment). Options must be granted at not less than the fair market value. Generally, the maximum option term is five years, and options may not be exercised until six months from grant. All outstanding options are exercisable for Common Shares of the Corporation; no further grants of options will be made under the HBMS 1981 Share Option Plan. No options were granted under the HBMS 1981 Share Option Plan in 1986.

Executive Incentive Plans. The Corporation and certain of its subsidiaries have adopted incentive plans. Generally, key executives of the Corporation and its subsidiaries are eligible to participate. Award opportunities are based upon the achievement of established measurable performance objectives. Awards, which may amount to up to 100% of salary, are discretionary and are subject to the approval of the appropriate committees of the Corporation or its subsidiaries. Awards under these plans made for 1986 to Messrs. Richards, Doull, Davis, Dible and Ellis and to all other executive officers as a group are included in the cash compensation table.

Savings and Investment Plan. The Corporation's Employees' Savings and Investment Plan has been in effect since January 1, 1984. With certain exceptions, all salaried employees of the Corporation (and of those subsidiaries that have elected to participate) are eligible to participate commencing on the January 1 or July 1 following their respective dates of employment. As of December 31, 1986, approximately 1,400 employees were participating in the Savings and Investment Plan, out of the 2,400 employees who were eligible. Participants may elect to have up to 8% of their base salaries (depending on salary level) deferred as a contribution to the Savings and Investment Plan instead of being paid to them currently. Participants may also make additional after-tax contributions of up to 10% of base salary (depending upon salary level). The Corporation, subject to certain limitations, may contribute an amount to match a percentage of the participant's contributions, but not in excess of 6% of the participant's compensation. Within this limit, the Corporation currently matches 50% of the total participant's contribution. Contributions by the Corporation are invested in Inspiration Resources Common Shares. Contributions by the Corporation, if not previously forfeited, vest at the rate of 20% per year of service, or earlier upon retirement, death or disability. Participants' contributions, which are always nonforfeitable, may be invested in a fixed income fund, two diversified equity funds and such other funds as are approved. Generally, distributions are made after a participant attains age 65, with distributions of participants' contributions payable in cash in a lump sum or in a single premium non-transferable annuity and distributions of the Corporation's contributions payable in Inspiration Resources Common Shares. In 1986, the Corporation made matching contributions, the unconditional vesting of which is not subject to future events, of $6,400, $8,000, $6,900, $5,700 and $5,700 to the accounts of Messrs. Richards, Doull, Davis, Dible and Ellis, respectively, and $61,800 to the accounts of all executive officers as a group.

Deferred Compensation Agreement. The Corporation entered into a deferred compensation agreement with Mr. Richards that became effective January 1, 1983 and remains effective until he ceases to be a full-time employee, attains age 65 or becomes totally disabled. Pursuant to the agreement, as of the end of each fiscal quarter, the Corporation must credit an account for Mr. Richards with phantom stock units equal to the number of whole Common Shares purchasable with

$50,000 at the market price on the last business day of such quarter. The account is subject to adjustment for stock or cash dividends on the Common Shares and for certain corporate changes (*e.g.*, stock splits, combinations and exchanges, mergers, recapitalizations, etc.). In no event may the value of the account at any date be less than the product of (i) $50,000 and (ii) the number of full fiscal quarters plus the portion of any partial fiscal quarter elapsed (the "minimum amount"). Mr. Richards is entitled to payment of phantom stock units credited to the account with respect to each fiscal year provided he remains a full-time employee for either five years thereafter or until his death, total disability or attainment of age 65. If his employment is otherwise terminated, the Board of Directors may require him to forfeit the preceding five years of credits to the account. Mr. Richards has no right to payments under the agreement while employed; thereafter, the account is to be valued at the greater of (i) the minimum amount or (ii) the product of the number of his nonforfeited phantom stock units and the market price of the Common Shares. The Corporation may pay such amount to Mr. Richards, his designated beneficiary or his estate in cash, Common Shares or a combination, either as soon as practicable or over a period of 10 or fewer years, in equal quarterly installments (with interest). A total of $200,000 was credited to Mr. Richards's account for 1986.

Pension Plan. Domestic employees of the Corporation (including officers) are covered by the Corporation's Employees' Pension Plan (the "Pension Plan"), effective January 1, 1984, a noncontributory defined benefit pension plan. The Pension Plan provides pension benefits upon retirement at age 65 or a reduced amount payable as early as age 55 or the completion of 10 years of service, whichever is later. The amount of normal retirement benefit, payable at age 65 as an annuity for the life of the employee only, is (i) 1¾% of the employee's annual average earnings during the three highest consecutive calendar years in the last 10 years of service multiplied by his years of credited service, minus (ii) 1¾% of the employee's Social Security benefit multiplied by his years of credited service to a maximum of 50%. Earnings covered under the Pension Plan include all salaries and wages paid to an employee, including bonuses, overtime, commissions and amounts the employee elects to defer under the Savings and Investment Plan. The following table shows the approximate gross annual retirement benefits payable at age 65 to those eligible employees under the Pension Plan and the Excess Benefit Plan (referred to below) at various levels of accrued service and compensation. The net benefits payable to employees will be the gross benefit reduced by the above-described percentage of the employee's primary Social Security benefit. The above benefits are subject to the limitations of section 415 of the Internal Revenue Code, which, in 1986, provided for a maximum annual payment of $90,000. Under the Excess Benefit Plan adopted by the Board of Directors of the Corporation in March 1986, the Corporation will supplement those benefits so that the amount the employee will receive will be equal to the amount that would have been received under the Pension Plan but for such limitations. The accrued years of service credited to Messrs. Richards and Doull are 4 and 12, respectively. Mr. Davis's pension and other benefits based on length of service to the Corporation are computed under an arrangement that gives him years of service as if employed since March 1, 1967.

Final Three-Year Average Compensation	Accrued Years of Service				
	10	15	20	30	40
$ 50,000	$ 8,750	$ 13,125	$ 17,500	$ 26,250	$ 35,000
$100,000	17,500	26,250	35,000	52,500	70,000
$250,000	43,750	65,625	87,500	131,250	175,000
$500,000	87,500	131,250	175,000	262,500	350,000
$750,000	131,250	196,875	262,500	393,750	525,000

Terra Retirement Plan. Mr. Dible, who was an employee of Terra International, Inc. ("Terra"), a subsidiary of the Corporation, until December 31, 1986, is covered by the Terra Chemicals International, Inc. Employees' Retirement Plan (the "Terra Retirement Plan"), effective January 1, 1984, a noncontributory defined benefit pension plan. The Terra Retirement Plan provides pension benefits upon retirement at age 65 or a reduced amount payable as early as age 55 or the completion of 10 years of service, whichever is later. The amount of normal retirement benefit, payable at age 65 as an

annuity for the life of the employee only, is (i) 50% of the employee's annual average earnings during the five highest consecutive calendar years in the last 15 years of service, minus (ii) 50% of the employee's Social Security benefit, except that if an employee has less than 25 years of credited service, the difference between (i) and (ii) is multiplied by the fraction of (x) the number of years of credited service over (y) 25. Earnings covered under the Terra Retirement Plan include compensation reported on the employee's Form W-2 and amounts the employee elects to defer under the Savings and Investment Plan. The net benefits payable to employees will be the gross benefit reduced by the above-described percentage of the employee's primary Social Security benefit. The above benefits are subject to the limitations of section 415 of the Internal Revenue Code, which, in 1986, provided for a maximum annual payment of $90,000. Under the Senior Executive Supplemental Retirement Plan, Terra will supplement the benefits payable to specified senior executives, including Mr. Dible, who retire before attaining the age of 65 so that the employee will receive an additional amount equal to the difference between (i) the product of (a) the retirement benefit calculated on the same formula as the Terra Retirement Plan but using the average earnings during the three highest consecutive years in the last 15 years of credited service and (b) a fraction, not to exceed one, of (v) the number of years of credited service the employee would have had if he had continued to work until he reached the age of 65, over (w) 25, and (ii) the retirement benefit under the Terra Retirement Plan. The supplemental benefits are not subject to the limitations of section 415 of the Internal Revenue Code. Mr. Dible retired on December 31, 1986 with 22 credited years of service and is receiving an early retirement pension under the 10 Year Certain and Life Option of approximately $78,250 per annum under the Terra Retirement Plan and approximately $68,500 per annum under the Senior Executive Supplemental Retirement Plan. Mr. Dible, Terra and the Corporation have agreed that Mr. Dible will perform consulting services for Terra in 1987 in exchange for the payment of $150,000, will receive a severance payment of $70,000 in 1988, is eligible to receive incentive compensation for 1986 from the Corporation as if he continued to be an employee in 1987, and will continue to be covered under Terra's medical, dental and life insurance plan until he reaches age 65. The following table shows the approximate gross annual retirement benefits payable at age 65 to those eligible employees under the Terra Retirement Plan at various levels of accrued service and compensation.

Final Five-Year Average Compensation	Accrued Years of Service				
	10	15	20	30	40
$ 50,000	$10,000	$15,000	$20,000	$25,000	$25,000
$100,000	20,000	30,000	40,000	50,000	50,000
$250,000	50,000	75,000	90,000	90,000	90,000
$500,000	90,000	90,000	90,000	90,000	90,000
$750,000	90,000	90,000	90,000	90,000	90,000

Inspiration Copper Retirement Plan. Mr. Ellis, who is an employee of Inspiration Gold Incorporated, a subsidiary of the Corporation, is covered by the Inspiration Consolidated Copper Company Retirement Plan for Salaried Employees (the "Inspiration Copper Retirement Plan"), effective January 1, 1986, a noncontributory defined benefit pension plan. The Inspiration Copper Retirement Plan provides pension benefits upon retirement at age 65 or a reduced amount payable as early as age 55 or the completion of 10 years of service, whichever is later. The amount of normal retirement benefit payable at age 65 is a one-time payment of $6,000, plus a monthly payment, for the life of the employee only, equal to the product of (i) the sum of (a) 1.3% of the portion of the employee's average monthly salary during the last 60 months of credited service that does not exceed the average amount of earnings subject to Social Security payroll taxes during that period and (b) 1.5% of the portion of the employee's average monthly salary during that period that exceeds the average amount of earnings subject to Social Security payroll taxes during that period, and (ii) the number of years of credited service, up to a maximum of 35 years. The benefits are not subject to a deduction for Social Security benefits. Earnings covered under the Inspiration Copper Retirement Plan include salaries and wages

paid to an employee on a regular basis, excluding bonuses, commissions and any other special payments, but including amounts the employee elects to defer under the Savings and Investment Plan. The following table shows the approximate gross annual retirement benefits payable at age 65 to those eligible employees under the Inspiration Copper Retirement Plan at various levels of accrued service and compensation who retire on January 1, 1987. The above benefits are subject to the limitations of section 415 of the Internal Revenue Code, which, in 1987, provided for a maximum annual payment of $90,000. Mr. Ellis has seven accrued years of service under the Plan.

Final Five-Year Average Compensation	Accrued Years of Service				
	10	15	20	30	40
$ 50,000	$ 6,750	$10,125	$13,500	$20,250	$23,625
$100,000	14,250	21,375	28,500	42,750	49,875
$250,000	36,750	55,125	73,500	90,000	90,000
$500,000	74,250	90,000	90,000	90,000	90,000
$750,000	90,000	90,000	90,000	90,000	90,000

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Corporation provides administrative services to Danville Resources, Inc. and Minorco Canada Limited ("Mincan") and certain other North American affiliates of Minorco. In addition, the Corporation participates in joint venture exploration and development arrangements with Mincan in Canada.

The Corporation has outstanding loans to certain of its employees made in connection with their relocation. Generally, the loans are secured by a residential mortgage and have a term of 20 years and an interest rate of four percent. The largest amounts outstanding during 1986 and the amounts outstanding at January 31, 1987 for such loans to Directors and executive officers of the Corporation were: Kenneth C. Brown, former Vice President, Planning and Development — $35,000 and $35,000, respectively; Mr. Doull — $368,049 and $350,922; Mr. Ellis — $88,305 and $- 0 -; J. Blair Howkins, Senior Vice President, Technical — $278,712 and $267,848; John H. Melville, Vice President and Treasurer — $150,468 and $- 0 - M. Brian O'Shaughnessy, former Senior Vice President, Marketing — $327,564 and $- 0 -; and Michael B. Smith, former Vice President, Finance — $198,378 and $- 0 -.

Mr. Sweatman is a partner of the law firm of Thompson, Dorfman, Sweatman, which was retained by a subsidiary of the Corporation during 1986.

Proposal 1

RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTANTS

The Board of Directors recommends that the stockholders ratify its selection of Price Waterhouse as independent accountants for the Corporation for the year 1987. The Board of Directors intends to introduce at the Annual Meeting the following resolution (designated herein as Proposal 1):

> "RESOLVED, that selection by the Board of Directors of the Corporation of Price Waterhouse as independent accountants for the Corporation for the year 1987 be, and it hereby is, ratified."

It is expected that a member of Price Waterhouse will attend the Annual Meeting to make a statement if he desires to do so and to respond to any appropriate questions that may be asked by stockholders.

The affirmative vote of a majority of the combined votes cast by the holders of Common Shares, Class A Shares and Trust Shares voting thereon is necessary for adoption of Proposal 1.

The Board of Directors recommends that you vote FOR Proposal 1.

Proposal 2

APPROVAL OF 1987 STOCK INCENTIVE PLAN

On March 10, 1987, the Board of Directors adopted the 1987 Stock Incentive Plan of the Corporation (the "1987 Plan"), subject to approval by the stockholders of the Corporation. The purpose of the 1987 Plan is to aid the Corporation in attracting and retaining key employees of outstanding ability by making it possible to offer them an increased incentive, principally in the form of a proprietary interest in the Corporation, to join or continue in the service of the Corporation and to increase their efforts for its benefit.

The Board of Directors believes that approval of the 1987 Plan is in the best interests of the Corporation in order to assure that the Corporation has available as and when appropriate, a program of competitive, flexible and contemporary forms of compensation incentives for key employees and thereby to further the future development and welfare of the Corporation.

The following is a summary of the terms of the 1987 Plan; it is qualified by reference to the text of the 1987 Plan, which is set forth in its entirety as Appendix I to this proxy statement.

The 1987 Plan authorizes the grant to key employees of the Corporation and its subsidiaries, selected by a Committee of Directors who are not employees, of awards consisting of (i) options intended to qualify as "incentive stock options" under the Internal Revenue Code, (ii) options that are not intended to so qualify, (iii) stock appreciation rights, (iv) performance units and (v) restricted stock.

Stock Options and Stock Appreciation Rights. Under the 1987 Plan, there may be granted incentive stock options to purchase, and nonqualified options to purchase, or stock appreciation rights (as described below) to receive Common Shares of the Corporation. Under the 1987 Plan (i) the option price per share may not be less than the fair market value at the time of grant, (ii) incentive and nonqualified stock options generally may not be exercised prior to any periods of service prescribed by the Committee or more than 10 years or 10 years and three months, respectively, from the date of grant, (iii) no option or stock appreciation right may be granted after March 9, 1992, (iv) payment of the option price may be made in cash, Common Shares held for at least six months, or a combination thereof and (v) the aggregate fair market value (determined at the date of grant) of the shares with respect to which incentive stock options are exercisable for the first time by a key employee in any calendar year cannot exceed $100,000.

The 1987 Plan permits the grant of a stock appreciation right in conjunction with the grant of an option, either at the time of the option grant or thereafter during its term and in respect of all or part of such option. A stock appreciation right permits an optionee, upon exercise of such rights and surrender of the related option or part thereof, to receive a payment equal to the excess of the fair market value (on the date of exercise) of the shares covered by such option (or part thereof so surrendered) over the option price of such shares. Such payment may be made in Common Shares (valued on the basis of the fair market value of such Common Shares on the date of exercise), in cash, or partly in cash and partly in Common Shares, as the Committee may determine. No stock appreciation right is exercisable prior to six months from the date of its grant.

If employment terminates by death or by retirement or permanent total disability, the former employee's option terminates at the earlier of (i) one or three years, respectively, from the date of death or retirement, unless the Committee determines otherwise, or (ii) the expiration of the stated term of the option. If employment terminates otherwise, the employee's option terminates immediately, unless the Committee determines otherwise.

Performance Units. Performance units under the 1987 Plan are contingent rights to receive future payments based on the achievement of individual or company performance objectives as prescribed by the Committee. The amount paid will be based on actual performance over a period of from two to

five years, as determined by the Committee. The performance objectives must be established in advance by the Committee, using such criteria as it deems appropriate including, but not limited to, earnings, earnings per share and return on equity of the Corporation or the award recipient's respective subsidiary employer. Payments may be in the form of Common Shares, cash, or a combination of Common Shares and cash. The ultimate payments are determined by the number of units earned at the end of the performance period. In the event an employee terminates employment during a performance period, the employee will forfeit any right to payment. However, in the case of retirement, permanent total disability, death or cases of special circumstances, the employee may, in the discretion of the Committee, be entitled to a performance settlement prorated for the portion of the performance period during which the employee was employed by the Corporation.

Restricted Stock. Restricted Common Shares may be awarded under the 1987 Plan, with each such share of restricted stock to be subject to a restriction period set by the Committee during which time the shares may not be sold, transferred, assigned or pledged. In the event an employee terminates employment during a restriction period, all such shares still subject to restrictions will be forfeited by the employee and reacquired by the Corporation. The Committee may provide for the lapse of restrictions in installments where deemed appropriate. The recipient, as owner of the awarded shares, will have all other rights of a stockholder, including the right to vote the shares and receive dividends and other distributions during the restriction period. The restrictions may be waived, in the discretion of the Committee, in the event of the recipient's retirement, permanent total disability or death or in cases of special circumstances.

Generally, the Board of Directors may amend, suspend or terminate the 1987 Plan at any time. The number, kind and option price of shares subject to awards are subject to adjustment by the Committee in the event of any merger, consolidation, stock dividend, split-up, combination, exchange, or the like. Shares that cease to be subject to an outstanding award (otherwise than by exercise of an option or cancellation upon exercise of a stock appreciation right or by settlement of an award in shares) become again available for award under the 1987 Plan. In addition, the Committee may (i) cancel options and rights and grant substitute options and rights having different terms and conditions (including a lower price), (ii) convert incentive stock options into nonqualified stock options, and vice versa, and (iii) provide a tax benefit right to receive in respect of the exercise of an option or right, other than an incentive stock option or right relating thereto, a cash amount equal to the maximum federal corporate income tax rate (up to 40%) multiplied by the amount of compensation realized by the holder for federal income tax purposes.

The Corporation has been advised that, under present law, the principal federal income tax consequences of awards under the 1987 Plan are as follows:

(a) An optionee will not realize taxable income upon the exercise of an incentive stock option, and the Corporation will not be entitled to any deduction, provided the optionee has been an employee of the Corporation or a subsidiary at all times from the date the option was granted to the date three months before exercise. If such optionee does not dispose of the shares acquired within one year after receipt and two years after the option was granted, gain or loss realized on the subsequent disposition of the shares will be treated as long-term capital gain or loss. If the shares are disposed or prior to those times, the optionee will realize ordinary income in an amount equal to the lesser of (i) the excess of the fair market value of the shares on the date of exercise over the option price; or (ii) if the disposition is a taxable sale or exchange, the amount of gain realized. Upon such a disposition, the Corporation will be entitled to a deduction in the same amount and at the same time as the optionee realizes such ordinary income.

(b) Upon exercise of a nonqualified option, an employee generally will realize ordinary income measured by the difference between the option price and the fair market value of the shares on the date of exercise, and the Corporation will be entitled to a deduction in the same amount.

(c) Upon the exercise of a stock appreciation right, an optionee will realize ordinary income in an amount equal to the sum of any cash received and the fair market value on the exercise date of any shares received. The Corporation will be entitled to a deduction in the same amount and at the same time as the optionee realizes such income.

(d) An employee will realize ordinary income upon receipt of payments with respect to performance units, and the Corporation will be entitled to a deduction in the same amount.

(e) An employee normally will not realize taxable income upon an award of restricted stock, and the Corporation will not be entitled to a deduction, until the termination of the restrictions. Upon such termination, the employee will realize taxable ordinary income in an amount equal to the fair market value of the shares at that time, and the Corporation will be entitled to a deduction in the same amount.

The following briefly describes the significant accounting aspects of the different forms of awards under current generally accepted accounting principles. For financial accounting purposes, neither the grant of an option nor the issuance of shares upon exercise of such option will result in a charge to the Corporation's earnings. However, the award of stock appreciation rights requires a charge (or credit) to earnings each year for the appreciation (or depreciation) on the rights that have become exercisable and that are anticipated will be exercised; the amount of such charge (or credit) is dependent upon the amount, if any, by which the fair market value of the shares exceeds the option price provided for in the related option. When such rights become exercisable, there will be a charge to earnings based on the excess, if any, of the highest price paid for a share during the immediately preceding 60-day period over the option price per share. This charge will be adjusted periodically based on the movement of the share price. With respect to awards of performance units, periodic estimates of the compensation expense will be charged to the Corporation's earnings over the performance period based on the likelihood of performance goals being achieved and the movement in share price; the aggregate compensation expense will equal the amount of any cash payment of the award plus the fair market value of any shares delivered in settlement of award, as of the end of the performance period. With respect to restricted stock awards, the fair market value of the shares on the date of award will be charged ratably against earnings as compensation expense over the restriction period.

The foregoing summary does not purport to be a complete description of the federal income tax and accounting aspects of awards under the 1987 Plan. The summary deals only with employees who are citizens or residents of the United States and is subject to change as the result of changes in the applicable laws, regulations or rulings. In addition to being subject to federal income taxes, employees receiving awards under the 1987 Plan may be subject to state and local taxes.

No awards have yet been made under the 1987 Plan.

The affirmative vote of a majority of the combined votes cast by the holders of Common Shares, Class A Shares and Trust Shares voting thereon is necessary for approval of the 1987 Plan and adoption of Proposal 2.

The Board of Directors recommends that you vote FOR Proposal 2.

SUBMISSION OF STOCKHOLDER PROPOSALS FOR 1988 ANNUAL MEETING

Proposals of stockholders intended to be submitted at the 1988 Annual Meeting of Stockholders must be received by the Corporation at its principal executive offices on or before December 4, 1987 to be eligible for inclusion in the Corporation's proxy statement and accompanying proxy for such meeting.

MISCELLANEOUS

The cost of the solicitation of proxies will be borne by the Corporation. In addition to the use of the mails, proxies may be solicited personally, or by telephone or by telegraph, by a few regular employees of the Corporation without additional compensation. The Corporation does not expect to pay any compensation for the solicitation of proxies but will reimburse brokers and other persons holding stock in their names, or in the names of nominees, at approved rates, for their expenses for sending proxy material to principals and obtaining their proxies.

A copy of the Corporation's 1986 annual report on Form 10-K filed with the Securities and Exchange Commission (without exhibits) will be made available to stockholders without charge upon written request to the Corporate Affairs Department, Inspiration Resources Corporation, 250 Park Avenue, New York, New York 10177.

March 31, 1987

INSPIRATION RESOURCES CORPORATION

1987 STOCK INCENTIVE PLAN

1. Purpose of the Plan

The purpose of this Stock Incentive Plan (the "Plan") is to aid Inspiration Resources Corporation and its Subsidiaries in securing and retaining Key Employees of outstanding ability by making it possible to offer them an increased incentive, in the form of a proprietary interest in the Corporation, to join or continue in the service of the Corporation and to increase their efforts for its welfare.

2. Definitions

As used in the Plan, the following words shall have the following meanings:

(a) "Award" means an award granted to any Key Employee in accordance with the provisions of the Plan in the form of Options, Rights, Performance Units or Restricted Stock, or any combination of the foregoing.

(b) "Beneficiary" means the beneficiary or beneficiaries designated pursuant to Section 13 of the Plan to receive the amount, if any, of Awards of Performance Units or Restricted Stock payable under the Plan upon the death of a Key Employee.

(c) "Board of Directors" means the Board of Directors of the Corporation.

(d) "Committee" means the committee described in Section 4 of the Plan.

(e) "Common Shares" means the Common Shares of the Corporation.

(f) "Corporation" means Inspiration Resources Corporation and its successors and assigns.

(g) "Fair Market Value" means (except as provided in Section 8(d)), as of any date, the closing sales price of a Common Share on the New York Stock Exchange — Composite Transactions or, if there are no sales reported on the New York Stock Exchange — Composite Transactions for such date, such closing sales price for the next preceding date for which sales were reported, the determination to be made in the discretion of the Committee.

(h) "Incentive Stock Option" means an option to purchase Common Shares that is intended to qualify as an incentive stock option as defined in section 422A of the Internal Revenue Code.

(i) "Internal Revenue Code" means the Internal Revenue Code of 1986 as now in effect or as hereafter amended or modified from time to time.

(j) "Key Employee" means any person, including officers and directors, in the regular full-time employment of the Corporation or a Subsidiary who, in the opinion of the Committee, is, or is expected to be, primarily responsible for the management, growth or protection of some part or all of the business of the Corporation and its Subsidiaries or otherwise to contribute substantially to the success of the Corporation and its Subsidiaries.

(k) "Nonqualified Stock Option" means an option to purchase Common Shares that is intended not to qualify as an incentive stock option as defined in section 422A of the Internal Revenue Code.

(l) "Option" means an Incentive Stock Option or a Nonqualified Stock Option.

(m) "Performance Unit" means a performance unit awarded under Section 10 of the Plan.

(n) "Restricted Stock" means one or more Common Shares awarded under Section 11 of the Plan, subject to such restrictions as the Committee deems appropriate or desirable.

(o) "Retirement" means becoming eligible to receive immediate retirement benefits under a retirement or pension plan of the Corporation or any Subsidiary.

(p) "Right" means a stock appreciation right to elect to receive Common Shares with a Fair Market Value, at the time of any exercise of such stock appreciation right, equal to the amount by which the Fair Market Value of all shares subject to the Option (or part thereof) in respect of which such stock appreciation right was granted exceeds the exercise price of the Option (or part thereof) or to receive from the Corporation, in lieu of such shares, the Fair Market Value thereof in cash, as provided in Section 7.

(q) "Subsidiary" means any corporation (other than Corporation) in an unbroken chain of corporations beginning with Corporation if each of the corporations other than the last corporation in the unbroken chain owns more than 50% of the voting stock in one of the other corporations in such chain.

(r) "Total Disability" means the complete and permanent inability of a Key Employee to perform the Key Employee's duties under the terms of the Key Employee's employment with the Corporation or any Subsidiary, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

(s) "Window Period" means the Window Period described in Section 8(c).

3. **Shares Subject to the Plan**

The aggregate number of Common Shares that may be subject to Awards under the Plan shall not exceed 2,500,000 shares. Such shares shall be made available either from authorized and unissued shares or shares held by the Corporation in its treasury. If, for any reason, any Common Shares awarded or subject to purchase by exercising an Option under the Plan are not delivered or are reacquired by the Corporation for reasons including, but not limited to, a forfeiture of Restricted Stock or termination, expiration or cancellation of an Option, Right or a Performance Unit, such Common Shares shall again become available for award under the Plan. For the purposes of determining the aggregate number of shares that may be issued, Common Shares issuable upon settlement of a Performance Unit shall be valued at their Fair Market Value on the date of award. To the extent a Right granted in connection with an Option is exercised, the related Option shall, solely for the purposes of determining the total number of shares available for grant under this Plan, be deemed to have been exercised, and the Common Shares that otherwise would have been issued upon the exercise of such Option shall not thereafter be available for any further grants. In the event the Corporation makes an acquisition or is a party to a merger or consolidation and the Corporation assumes the options of the company acquired, merged or consolidated that are administered pursuant to this Plan, the assumed options shall not count as part of the total number of Common Shares that may be made subject to Awards under this Plan.

4. **Administration of the Plan**

(a) The Plan shall be administered by a Committee appointed by the Board of Directors and consisting of at least three members of the Board of Directors.

(b) Each member of the Committee shall be a "disinterested person" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934 or successor rule or regulation. No member of the Committee shall be, or shall have been, eligible to receive an Award under the Plan or any other plan maintained by the Corporation or any Subsidiary to acquire stock, stock options, stock appreciation rights, performance units or restricted stock of the Corporation or any Subsidiary at any time within the one year immediately preceding the member's appointment to the Committee.

(c) All decisions, determinations or actions of the Committee made or taken pursuant to grants of authority under the Plan shall be made or taken in the sole discretion of the Committee and shall be final, conclusive and binding on all persons for all purposes.

(d) The Committee shall have full power, discretion and authority to interpret, construe and administer the Plan and any part thereof and to make and amend rules for carrying out the Plan, and its interpretations and constructions thereof and actions taken thereunder shall be, except as otherwise determined by the Board of Directors, final, conclusive and binding on all persons for all purposes.

(e) The Committee's decisions and determinations under the Plan need not be uniform and may be made selectively among Key Employees, whether or not such Key Employees are similarly situated.

(f) The Committee may, in its sole discretion, delegate such of its powers as it deems appropriate.

(g) The Committee may adopt its own rules of procedure; and the action of a majority of the Committee, taken at a meeting or taken without a meeting by a writing signed by such majority, shall constitute action by the Committee.

5. **Grant of Awards and Award Agreements**

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards are to be granted; (ii) determine the form or forms of Award to be granted to any Key Employee; (iii) determine the amount or number of Common Shares or Performance Units subject to each Award; and (iv) determine the terms and conditions of each Award.

(b) Each Award granted under the Plan shall be evidenced by a written Award Agreement. Such agreement shall be subject to and incorporate the express terms and conditions, if any, required under the Plan or required by the Committee.

(c) The Committee may impose such conditions as it deems advisable on the grant of an Award.

(d) The Committee may, in its discretion, grant one or more new Options (and related Rights) to any Key Employee, having any such terms permitted under the Plan as the Committee may determine, on the condition that such Key Employee surrender to the Corporation for cancellation one or more Options (and related Rights) previously granted to such Key Employee, whether or not at a higher price.

6. **Terms of Options**

The terms of each Option granted under the Plan shall be as determined from time to time by the Committee and shall be set forth in a form approved by the Committee, consistent however with the following:

(a) The Option exercise price per share shall not be less than Fair Market Value at the time the Option is granted.

(b) (i) Options may be granted for such lawful consideration as shall be determined by the Committee. Such consideration may, but need not, consist of a condition that, prior to exercise, the recipient of the Award remain in the employ of the Corporation or a Subsidiary for such period or periods after the date of grant of the Option as may be determined by the Committee. The Option shall be exercisable in whole or in part from time to time during the period beginning at the earlier of the date of grant or the completion of any required service period stated in the Option and ending at the expiration of ten years from the date of grant of an Incentive Stock Option and ten years and three months from the date of grant of a Nonqualified Stock Option, unless an earlier expiration date shall be stated in the Option or the Option shall cease to be exercisable pursuant to paragraph (d) of this Section 6.

(ii) The aggregate Fair Market Value, determined at the time an Incentive Stock Option is granted, of the shares with respect to which Incentive Stock Options granted after 1986 may be exercisable for the first time by a Key Employee in any calendar year under all plans of the Corporation and any parent corporation of the Corporation and any Subsidiary shall not exceed $100,000.

(c) Payment in full of the Option exercise price shall be made upon exercise of each Option and may be made in cash, by the delivery of Common Shares with a Fair Market Value equal to the Option exercise price, provided the Key Employee has held such shares for a period of at least six months, or by a combination of cash and such shares that have been held by the Key Employee for a period of at least six months whose Fair Market Value together with such cash shall equal the Option exercise price.

(d) (i) If a Key Employee's employment with the Corporation and all Subsidiaries terminates other than by reason of the Key Employee's death, Total Disability or Retirement, the Key Employee's Option shall terminate and cease to be exercisable upon termination of employment, unless the Committee shall determine otherwise.

(ii) If a Key Employee's employment with the Corporation and all Subsidiaries terminates by reason of death, the Key Employee's Option shall terminate and cease to be exercisable at the earlier of one year from the date of death, unless the Committee shall determine otherwise, or the expiration of the term stated in the Option Agreement.

(iii) If a Key Employee's employment with the Corporation and all Subsidiaries terminates by reason of Total Disability or Retirement, the Key Employee's Option shall terminate and cease to be exercisable at the earlier of three years from date of Retirement, unless the Committee shall determine otherwise, or the expiration of the term stated in the Option Agreement.

(iv) If the terms of an Option provide for its expiration prior to the expiration of the maximum term permitted by Section 6(b)(i) above, the Committee may, at any time and without further consideration to the Corporation, extend the expiration date of the Option but not beyond ten years from its date of grant in the case of an Incentive Stock Option and ten years and three months in the case of a Nonqualified Stock Option.

7. Granting of Rights

The Committee, at the time of grant of an Option, or at any time prior to the expiration of its term may also grant, subject to the terms and conditions of the Plan, Rights in respect of all or part of such Option to the Key Employee who has been granted the Option, provided that at such time the grantee is a Key Employee. No Right shall be exercisable prior to six months from the date of grant.

8. Exercise of Options and Rights

(a) The holder of an Option or Right who decides to exercise the Option or Right in whole or in part shall give notice to the Corporate Secretary of the Corporation of such exercise in writing on a form approved by the Committee. A notice exercising a Right shall also specify the extent, if any, to which the Key Employee elects to receive Common Shares and the extent, if any, to which the Key Employee elects to receive cash, and shall be subject to the determination by the Committee as provided in Section 8(d). Any exercise shall be effective as of the date of the notice of exercise, and in the case of exercise of an Option, payment in full of the Option Exercise price, is actually received by the Corporate Secretary of the Corporation.

(b) To the extent an Option is exercised in whole or in part, any Right granted in respect of such Option (or part thereof) shall terminate and cease to be exercisable. To the extent a Right is exercised in whole or in part, the Option (or part thereof) in respect of which such Right was granted shall terminate and cease to be exercisable.

(c) Subject to Section 7, a Right shall be exercisable only during the period in which the Option (or part thereof) in respect of which such Right was granted is exercisable. In addition, when a Right is held by a person who is, or within the preceding six months has been, a director or an officer of the Corporation for purposes of section 16(b) of the Securities Exchange Act of 1934 who elects to receive cash for all or part of the payments upon exercise, or who exercises for such cash, the person may so elect or exercise such Right only during any period beginning on the third business day following the date of release of a summary statement of the Corporation's quarterly or annual sales and earnings and ending on the twelfth business day following such date (a "Window Period"). In addition, a Right that relates to an Incentive Stock Option shall be exercisable only if and when there is a "positive spread" within the meaning of applicable Treasury Regulations.

(d) The Committee shall have sole discretion to determine the form in which payment will be made following exercise of a Right. All or any part of the obligation arising out of an exercise of a Right may be settled

(i) by payment in Common Shares with a Fair Market Value equal to the cash that would otherwise be paid,

(ii) by payment in cash, or

(iii) by payment in a combination of such shares and cash. The amount of appreciation realized on the exercise of a Right required to be exercised during a Window Period shall be determined in accordance with Section 2(p) above by reference to such measure of fair market value, other than "Fair Market Value" (as defined), as the Committee, in its discretion, may determine, but not in excess of the highest closing sales price for the Common Shares on the New York Stock Exchange — Composite Transactions during the Window Period in which the Right is exercised and, in the case of a Right relating to an Incentive Stock Option, not in excess of the maximum amount that may be paid without disqualifying the Option as an Incentive Stock Option under section 422A of the Internal Revenue Code.

(e) Notwithstanding the provisions of Section 8(c) above, to the extent that any Right that shall have become exercisable shall not have been exercised or canceled, or by reason of any termination of employment, shall have become nonexercisable, it shall be deemed to have been exercised automatically, without any notice of exercise, on the last day on which its related Option is exercisable, provided that any conditions or limitations on its exercise other than notice of exercise are satisfied and the Right shall then have value. Such exercise shall be deemed to specify that, subject to determination by the Committee as provided in Section 8(d), the holder elects to receive cash and that such exercise of a Right shall be effective as of the time of the exercise.

9. Limitations and Conditions on Options and Rights

(a) No Option or Right shall be granted under the Plan after March 9, 1992, but Options and Rights theretofore granted may extend beyond that date. At the time an Option or Right is granted or amended or the terms or conditions of an Option or Right are changed, the Committee may provide for limitations or conditions on the exercisability of the Option or Right.

(b) An Option or Right shall not be transferable by the Key Employee otherwise than by will or by the laws of descent and distribution. A Right shall never be transferred except to the transferee of the related Option. During the lifetime of the Key Employee, an Option or Right shall only be exercisable by the Key Employee.

(c) No person shall have any rights of a stockholder (i) as to shares under Option until, after proper exercise of the Option, such shares shall have been recorded on the Corporation's official stockholder records as having been issued or transferred or (ii) as to shares to be delivered following exercise of a Right until, after proper exercise of the Right and determination by the Committee to make payment therefor in shares, such shares shall have been recorded on the Corporation's official stockholder records as having been issued or transferred.

10. **Performance Units**

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards of Performance Units are to be made, (ii) determine the Performance Period (the "Performance Period") and Performance Objectives (the "Performance Objectives") applicable to such Awards, (iii) determine the form of settlement of a Performance Unit and (iv) generally determine the terms and conditions of each such Award. Each Performance Unit shall have a value of $100.

(b) The Committee shall determine a Performance Period of not less than two nor more than five years. Performance Periods may overlap and Key Employees may participate simultaneously with respect to Performance Units for which different Performance Periods are prescribed.

(c) The Committee shall determine the Performance Objectives of Awards of Performance Units. Performance Objectives may vary from Key Employee to Key Employee and between groups of Key Employees and shall be based upon such performance criteria or combination of factors as the Committee may deem appropriate, including, but not limited to, minimum earnings, earnings per share, earnings growth, earnings per share growth or return on equity. If during the course of a Performance Period there shall occur significant events that the Committee expects to have a substantial effect on the applicable Performance Objectives during such period, the Committee may revise such Performance Objectives.

(d) At the beginning of a Performance Period, the Committee shall determine for each Key Employee or group of Key Employees the number of Performance Units that shall be paid to the Key Employee or member of the group of Key Employees if the applicable Performance Objectives are met in whole or in part.

(e) If a Key Employee terminates service with the Corporation and all Subsidiaries during a Performance Period because of death, Total Disability, Retirement, or under other circumstances where the Committee in its sole discretion finds that a waiver would be in the best interests of the Corporation, that Key Employee may, as determined by the Committee, be entitled to an Award of Performance Units at the end of the Performance Period based upon the extent to which the Performance Objectives were satisfied at the end of such period and prorated for the portion of Performance Period during which the Key Employee was employed by the Corporation or any Subsidiary; provided, however, the Committee may provide for an earlier payment in settlement of such Performance Units in such amount and under such terms and conditions as the Committee deems appropriate or desirable. If a Key Employee terminates service with the Corporation and all Subsidiaries during a Performance Period for any other reason, then such Key Employee shall not be entitled to any Award with respect to that Performance Period unless the Committee shall otherwise determine.

(f) Each Award of a Performance Unit shall be paid in whole Common Shares, or cash, or a combination of Common Shares and cash either as a lump sum payment or in annual installments, all as the Committee shall determine, with payment to commence as soon as practicable after the end of the relevant Performance Period.

(g) Common Shares issued in settlement of Performance Units shall be valued at their Fair Market Value on the last day of the Performance Period.

(h) No Key Employee awarded a Performance Unit shall have any right as a stockholder with respect to any shares covered by the Award prior to the date such shares have been recorded on the Corporation's official stockholder records as having been issued or transferred to the Key Employee.

11. **Restricted Stock**

(a) Restricted Stock shall be subject to a restriction period (after which restrictions shall lapse), which shall mean a period commencing on the date the Award is granted and ending on such date as

the Committee shall determine (the "Restriction Period"). The Committee may provide for the lapse of restrictions in installments where deemed appropriate.

(b) Except when the Committee determines otherwise pursuant to Section 11(d), if a Key Employee terminates employment with the Corporation and all Subsidiaries for any reason before the expiration of the Restriction Period, all shares of Restricted Stock still subject to restriction shall be forfeited by the Key Employee and shall be reacquired by the Corporation.

(c) Except as otherwise provided in this Section 11, no shares of Restricted Stock received by a Key Employee shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

(d) In cases of death, Total Disability or Retirement or in cases of special circumstances, the Committee may, in its sole discretion when it finds that a waiver would be in the best interests of the Corporation, elect to waive any or all remaining restrictions with respect to such Key Employee's Restricted Stock.

(e) The Committee may require, under such terms and conditions as it deems appropriate or desirable, that the certificates for Common Shares delivered under the Plan may be held in custody by a bank or other institution, or that the Corporation may itself hold such shares in custody until the Restriction Period expires or until restrictions thereon otherwise lapse, and may require, as a condition of any Award of Restricted Stock that the Key Employee shall have delivered a stock power endorsed in blank relating to the Restricted Stock.

(f) Nothing in this Section 11 shall preclude a Key Employee from exchanging any shares of Restricted Stock subject to the restrictions contained herein for any other Common Shares that are similarly restricted.

(g) Subject to Section 11(e) and Section 12, each Key Employee entitled to receive Restricted Stock under the Plan shall be issued a certificate for the Common Shares. Such certificate shall be registered in the name of the Key Employee, and shall bear an appropriate legend reciting the terms, conditions and restrictions, if any, applicable to such Award and shall be subject to appropriate stop-transfer orders.

(h) Except for the restrictions on Restricted Stock under this Section 11, each Key Employee who receives Common Shares in settlement of an Award of Restricted Stock shall have the rights of a stockholder with respect to such shares, including the right to vote the shares and receive dividends and other distributions.

12. **Certificates for Awards of Stock**

(a) The Corporation shall not be required to issue or deliver any certificates for Common Shares prior to (i) the listing of such shares on any stock exchange on which the Stock may then be listed and (ii) the completion of any registration or qualification of such shares under any federal or state law, or any ruling or regulation of any government body which the Corporation shall, in its sole discretion, determine to be necessary or advisable.

(b) All certificates for Common Shares delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Shares are then listed and any applicable federal, state or local securities laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

13. **Beneficiary Designation**

(a) Each Key Employee shall file with the Corporation a written designation of one or more persons as the Beneficiary or Beneficiaries who shall be entitled to receive the Award, if any, of

Performance Units or Restricted Stock payable under the Plan upon the Key Employee's death. Subject to the requirements of law, a Key Employee may from time to time revoke or change the Beneficiary designation without the consent of any prior Beneficiary by filing a new designation with the Corporation. The last such designation received by the Corporation shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Corporation prior to the Key Employee's death, and in no event shall it be effective as of a date prior to such receipt.

(b) If no such Beneficiary designation is in effect at the time of a Key Employee's death, or if no designated Beneficiary survives the Key Employee or if such designation conflicts with the law, the Key Employee's estate shall be entitled to receive the Award, if any, of Performance Units or Restricted Stock payable under the Plan upon the Key Employee's death. If the Committee is in doubt as to the right of any person to receive such Award, the Corporation may retain such Award, without liability for any interest thereon, until the Committee determines the rights thereto, or the Corporation may pay such Award into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Corporation therefor.

14. Transfers and Leaves of Absence

Solely for the purposes of the Plan: (a) a transfer of a Key Employee's employment without an intervening period from the Corporation to a Subsidiary or vice versa, or from one Subsidiary to another, shall not be deemed a termination of employment, and (b) a Key Employee who is granted in writing a leave of absence shall be deemed to have remained in the employ of the Corporation or a Subsidiary, as the case may be, during such leave of absence.

15. Stock Adjustments

In the event of any merger, consolidation, stock dividend, split-up, combination or exchange of shares or recapitalization or change in capitalization involving the Corporation, the number of shares set forth in Section 3 shall be proportionately and appropriately adjusted. In any such case, (i) the number and kind of shares that are subject to any Award (including any Option outstanding after termination of employment) and the Option exercise price per share shall be proportionately and appropriately adjusted without any change in the aggregate Option exercise price to be paid therefor upon exercise of the Option, and (ii) the Committee may make such adjustments in the number and kind of Rights, Performance Units and Restricted Stock as it shall deem appropriate in the circumstances. The determination by the Committee as to the terms of any of the foregoing adjustments shall be conclusive and binding.

16. Tax Benefit Rights

The Committee may also from time to time and upon such terms and conditions as it may in its discretion determine, grant the holder of any Option under this Plan selected by the Committee the right ("tax benefit right") to receive from the Corporation or any of its wholly owned subsidiaries as a result of the exercise of any Option or Right (except an Incentive Stock Option or Right with respect thereto) granted pursuant to this Plan, an amount, in cash, equal to the then applicable maximum statutory federal income tax rate for corporations (subject to a maximum of 40%) multiplied by the amount of compensation, if any, realized by the holder for federal income tax purposes. Such payment shall not be made except pursuant to the exercise of any Option or Right not earlier than six months after the date of grant of the related tax benefit right. The Committee may cancel or place a limit on the term or amount of any tax benefit right at any time and shall determine all other terms and provisions of any tax benefit right.

17. **Amendment and Termination**

(a) The Board of Directors shall have the power to amend the Plan, including the power to change the amount of the aggregate Fair Market Value of the shares subject to Incentive Stock Options first exercisable in any calendar year under Section 6 to the extent provided in section 422A, or any successor provision, of the Internal Revenue Code. It shall not, however, except as otherwise provided in the Plan, (i) increase the maximum number of shares authorized for the Plan, or change the class of eligible employees to other than Key Employees, (ii) reduce the basis upon which the minimum Option exercise price is determined, (iii) extend the period within which Awards under the Plan may be granted, (iv) change the basis upon which shares or cash may be distributed upon exercise of an Award, (v) provide for an Incentive Stock Option that is exercisable more than ten years from the date it is granted or a Nonqualified Stock Option that is exercisable more than ten years and three months from the date it is granted, (vi) provide for a Right that is exercisable for cash during a period of less than six months from the date it is granted or more than ten years from the date the related Incentive Stock Option or ten years and three months from the date the related Nonqualified Stock Option is granted.

(b) The Board of Directors may suspend or terminate the Plan at any time. No such suspension or termination shall affect Awards then in effect.

(c) The Committee may, in its discretion, amend or modify the terms and conditions of outstanding Awards, including amending or modifying an Option to convert the Option from an Incentive Stock Option to a Nonqualified Stock Option or from a Nonqualified Stock Option to an Incentive Stock Option.

(d) The Committee may not, without the consent of the Award recipient, modify such terms and conditions in a manner that would adversely affect the rights of such person, except to the extent, if any, provided in the Plan or in the Award.

18. **Effective Date**

The Plan shall be effective as of March 10, 1987, subject to its approval by the stockholders of the Corporation. All Awards that have been or may be granted under the Plan prior to stockholder approval shall be conditioned upon, and may not be exercisable until after, such stockholder approval.

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INSPIRATION
RESOURCES
CORPORATION

250 Park Avenue
New York, N.Y. 10177

INSPIRATION

April 7, 1986

DEAR STOCKHOLDER:

You are cordially invited to attend the Annual Meeting of Stockholders of the Corporation to be held at 9:00 a.m. on Wednesday, May 14, 1986, in the main auditorium of Chemical Bank, 55 Water Street, New York, New York.

The accompanying Notice of Meeting and Proxy Statement describe the matters to be considered and voted upon at the Meeting. In addition to consideration of these matters, there will be a report to stockholders on the affairs of the Corporation, and stockholders will have an opportunity to discuss matters of interest concerning the Corporation.

We hope all stockholders of the Corporation and of Hudson Bay Mining and Smelting Co., Limited will be able to attend the Meeting. If you plan to attend, please check the appropriate box on your proxy or voting directions card.

Whether or not you plan to attend the Meeting personally, it is important that your shares be represented. To ensure that your vote will be received and counted, please promptly complete, date and return your proxy or voting directions card in the enclosed return envelope.

Sincerely yours,

R. F. Richards

REUBEN F. RICHARDS
Chairman of the Board, President and
Chief Executive Officer

INSPIRATION
RESOURCES
CORPORATION

250 Park Avenue
New York, N.Y. 10177

INSPIRATION

NOTICE OF 1986 ANNUAL MEETING OF STOCKHOLDERS

To the Stockholders:

The Annual Meeting of Stockholders of Inspiration Resources Corporation (the "Corporation") will be held in the main auditorium of Chemical Bank, 55 Water Street, New York, New York, on Wednesday, May 14, 1986 at 9:00 a.m., New York time, for the following purposes:

(a) to elect Directors of the Corporation;

(b) to consider and vote upon a proposal described in the attached Proxy Statement to ratify the selection by the Board of Directors of the firm of Price Waterhouse as independent accountants for the Corporation for 1986;

(c) to transact such other business as may properly come before the Meeting.

Only stockholders of record of the Corporation's Common Shares, Class A Shares and Trust Shares (which are held on behalf of the holders of record of Hudson Bay Mining and Smelting Co., Limited Special Shares) at the close of business on March 26, 1986 are entitled to notice of, and to vote at, the Meeting.

C.H.R. DuPree
Vice President, Corporate Secretary
and Assistant General Counsel

April 7, 1986

PROXY STATEMENT

General

The principal executive offices of Inspiration Resources Corporation (the "Corporation") are located at 250 Park Avenue, New York, N.Y. 10177. This proxy statement and the accompanying proxy are first being sent or given to stockholders on or about April 7, 1986.

The accompanying proxy is solicited by the Board of Directors of the Corporation. It may be revoked by written notice given to the Corporate Secretary of the Corporation at any time before being voted. Proxies in this form, properly executed, duly returned to the Corporation and not revoked, will be voted for the election of Directors (except to the extent that authority therefor is withheld), and on the Proposal described in this proxy statement, in accordance with the instructions in the proxy. The Board of Directors is not aware at the date hereof of any matter proposed to be presented at the Meeting other than the election of Directors and Proposal 1. If any other matter is properly presented, the persons named in the accompanying form of proxy will have discretionary authority to vote thereon according to their best judgment. Presence at the meeting does not of itself revoke the proxy.

Securities Entitled to Vote

The only securities entitled to be voted at the Meeting are the Corporation's Common Shares, Class A Shares and Trust Shares, and only holders of record at the close of business on March 26, 1986 (the "record date") are entitled to vote. The Common Shares and the Trust Shares are each entitled to one vote per share and the Class A Shares are entitled to one-tenth of a vote per share, all voting together as a single class. Outstanding Trust Shares are held by Montreal Trust Company as trustee (the "Trustee") for the holders of the Special Exchangeable Non-Voting Shares ("Special Shares") of Hudson Bay Mining and Smelting Co., Limited ("HBMS"), a subsidiary of the Corporation, all of whose voting stock is beneficially owned by the Corporation.

HBMS Special Shares have no general voting rights in HBMS. Instead, each HBMS Special Share that has not been exchanged carries voting rights in the Corporation equivalent to one Common Share of the Corporation (*i.e.*, the number of Common Shares for which such HBMS Special Share was exchangeable on the record date). Each holder of record of HBMS Special Shares on the record date is entitled to direct the Trustee either (i) to vote the number of Trust Shares equal to the number of HBMS Special Shares held of record by such HBMS Special Share holder on the record date or (ii) to deliver a proxy in favor of such holder enabling such holder to attend the Meeting personally and to vote the number of Trust Shares equal to the number of HBMS Special Shares held of record by such holder on the record date. The Trustee will vote Trust Shares only in accordance with proper directions received from holders of HBMS Special Shares and will not vote Trust Shares as to which no proper directions are received. Directions received by the Trustee may be revoked by written notice given to the Trustee before the subject Trust Shares are voted. An authorized representative of the Trustee is expected to be present at the Meeting.

On March 26, 1986, 38,677,142 Common Shares and 17,898,292 Class A Shares were outstanding, and 7,132,010 Trust Shares were outstanding, underlying the same number of HBMS Special Shares.

ELECTION OF DIRECTORS

Nominees

The Board of Directors consists of twelve members who are elected to hold office until the next Annual Meeting or until their successors are duly elected and qualified. The affirmative vote of a plurality of the combined votes cast by the holders of Common Shares, Class A Shares and Trust Shares voting thereon is necessary to elect a Director. If no contrary indication is made, proxies in the accompanying form are to be voted for the nominees named below or, in the event any such nominee is not a candidate or is unable to serve as a Director at the time of the election (which is not now expected), for any nominee who shall be designated by the Board of Directors to fill such vacancy. All nominees named below are incumbent members of the Board of Directors. Set forth below opposite the name and age of each nominee are his present positions and offices with the Corporation, his principal occupations during the past five years, and the year in which he was first elected a Director of the Corporation.

Name and age	Present positions and offices with the Corporation and principal occupations and positions during the past five years	Year first elected Director
Edward M. Carson (56)	President and Director of First Interstate Bancorp since January 1985; President and Chief Executive Officer and Director of First Interstate Bank of Arizona, N.A. prior thereto.	1983
Richard R. Davis (49)	Senior Vice President and General Counsel of the Corporation since July 1983; Partner, Chadbourne, Parke, Whiteside & Wolff (law firm) prior thereto.	1983
William T. Dible (60)	Senior Vice President, Agribusiness of the Corporation since March 1986 and President and Chief Executive Officer of Terra International, Inc. (agricultural products and services).	1986
Adrian M. Doull (41)	Executive Vice President of the Corporation since March 1986, Senior Vice President and Group Executive thereof from September 1985 to March 1986 and Senior Vice President, Administration thereof from July 1983 to September 1985; Vice President, Finance of Minerals and Resources Corporation Limited (investment company) from May 1981 to July 1983; Senior Vice President, Finance of HBMS prior thereto.	1978
Jack A. Holmes (55)	Technical Director of Anglo American Corporation of South Africa Limited (mining finance company); Alternate Director of Minerals and Resources Corporation Limited since September 1983.	1983
J. Blair Howkins (54)	Senior Vice President, Technical of the Corporation since March 1986, Senior Vice President and Group Executive thereof from September 1985 to March 1986 and Senior Vice President, Operations thereof from July 1983 to September 1985; Executive Vice President of HBMS from December 1982 to June 1983; Senior Vice President, Corporate and Exploration of HBMS from January 1982 to December 1982; Senior Vice President, Exploration of HBMS prior thereto.	1981
Robert H. Jones (61)	Chairman of the Board and Director of The Investors Group (financial holding company) since April 1981 and Chief Executive Officer thereof from April 1981 to May 1985; President and Chief Executive Officer and Director thereof prior thereto.	1983
Allen T. Lambert (74)	Chairman of the Board of HBMS since August 1983; Director of companies; Director of Toronto-Dominion Bank until January 1982 and former Chairman of the Board thereof; Chairman of the Board of Trilon Financial Corporation since November 1982; Chairman of the Board of London Life Insurance Co. since March 1983; Chairman of the Board of Wellington Insurance Co. since January 1985.	1983
J. Roger B. Phillimore (36)	Director of Minerals and Resources Corporation Limited since November 1984 and Vice President, Administration thereof from September 1981 to May 1985; Divisional Manager of Anglo American Corporation of South Africa Limited prior thereto.	1983
Reuben F. Richards (56)	Chairman of the Board and Chief Executive Officer of the Corporation since December 1982 and President thereof since July 1983; and President and Chief Executive Officer of HBMS from December 1982 to June 1983; Executive Vice President of Citibank, N.A. prior thereto.	1982
Henry R. Slack (36)	President of Minerals and Resources Corporation Limited since September 1985 and Director thereof since October 1982; Director of companies; Executive Director of Anglo American Corporation of South Africa Limited since June 1983; Executive Assistant to the Chairman thereof prior to January 1983.	1983
Alan Sweatman (65)	Partner, Thompson, Dorfman, Sweatman (law firm).	1983

In addition, Mr. Carson is a director of Ramada Inns, Inc.; Mr. Doull is a director of Adobe Resources Corporation; Mr. Jones is a director of The Great-West Life Assurance Company and TransCanada PipeLines Limited; Mr. Lambert is a director of Dome Mines Limited, Dome Petroleum Limited and Hiram Walker Resources Ltd.; Mr. Phillimore is a director of Engelhard Corporation; Mr. Richards is a director of Adobe Resources Corporation, Economics Laboratory, Inc., Engelhard Corporation, Phibro-Salomon Inc and Potlatch Corporation; Mr. Slack is a director of Adobe Resources Corporation, Engelhard Corporation and Phibro-Salomon Inc; and Mr. Sweatman is a director of Inter-City Gas Corporation.

Board of Directors and Committees

During the Corporation's last fiscal year, its Board of Directors held six meetings. During periods that each incumbent member of the Board of Directors of the Corporation served during the Corporation's last fiscal year, each member, other than Mr. Slack, attended at least 75% of the aggregate of all meetings of the Board of Directors and all meetings of committees of the Board of Directors of which he was a member.

The Board of Directors of the Corporation has an Audit Committee, an Executive Committee and a Personnel Committee. The Audit Committee, which met twice in 1984, is comprised of Messrs. Lambert and Phillimore. Its functions include recommending annually to the Board of Directors a firm of independent accountants to audit and review the Corporation's books and records and the scope of such firm's audit, reviewing reports and recommendations and fees of the Corporation's independent accountants, reviewing the scope of all internal audits and reports and recommendations in connection therewith and reviewing non-audit services provided by the Corporation's independent accountants.

The Executive Committee, which held one meeting last year, consists of Messrs. Carson, Phillimore, Richards and Slack. The Executive Committee is authorized to exercise, to the extent permitted by law, all the power and authority of the Board of Directors in the management of the Corporation between meetings of the Board.

The Personnel Committee, which met three times during the last year, is comprised of Messrs. Carson, Jones and Slack. Its functions include performance of the duties of the committees that administer certain employee benefit plans, recommendation to the Board of Directors as to compensation of executive officers and establishment of compensation administration guidelines for the Corporation and its subsidiaries.

Generally, each Director who is not an officer or employee of the Corporation or one of its subsidiaries receives an annual retainer of $10,000 for services as a Director. In addition, such Directors receive a fee of $600 for each Board or Committee meeting attended and are reimbursed their expenses of attending such meetings.

Equity Security Ownership

The following table shows, based on information received by the Corporation from or on behalf of such persons, the ownership, as of January 31, 1986, of the Corporation's securities by the only persons known to the Corporation to be the beneficial owners of more than five percent of any class of the Corporation's voting securities.

Name and address of beneficial owner	Title of class	Amount and nature of beneficial ownership	Percentage of class	Percentage of total voting power	Percentage of total equity
Minerals and Resources Corporation Limited(1) P.O. Box 650 Hamilton, 5-24 Bermuda	Common Shares	19,257,433, sole voting and investment power	50.2%	44.2%	58.3%
	Class A Shares	17,898,292, sole voting and investment power	100%		
Torray Clark & Co. Incorporated 6610 Rockledge Drive Suite 450 Bethesda, Maryland 20817	Common Shares	2,493,568, sole voting and investment power 646,700, sole investment power	8.2%	5.2%	4.9%

(1) The shares beneficially owned by Minerals and Resources Corporation Limited ("Minorco") are held of record by a wholly-owned subsidiary. The shares and percentages shown do not include 4,102,064 warrants of the Corporation beneficially owned by Minorco, each of which entitles the holder to purchase either one Common Share or one Class A Share.

Through its beneficial ownership of Common Shares and Class A Shares, Minorco owns approximately 58% of the equity of the Corporation and an aggregate voting interest of approximately 44% in the Corporation. The Class A Shares are convertible at any time at the option of the holder into the same number of Common Shares. If Minorco were to convert its Class A Shares into Common Shares, Minorco's voting interest in the Corporation would increase to its equity interest of 58%. However, Minorco has informed the Corporation that it does not currently intend to exercise its conversion rights, except to maintain a voting interest in the Corporation of slightly less than 50%.

Minorco is an investment company the capital stock of which is controlled, in part, as follows: approximately 39%, directly or through subsidiaries, by Anglo American Corporation of South Africa Limited ("Anglo American"), a publicly-held mining and finance company; approximately 21%, directly or through subsidiaries, by De Beers Consolidated Mines Limited ("De Beers"), a publicly-held diamond mining and investment company and approximately 4% by an affiliated company. Approximately 38% of Anglo American is controlled, directly or through subsidiaries, by De Beers. Approximately 34% of De Beers is controlled, directly or through subsidiaries, by Anglo American. Harry F. Oppenheimer is a director of De Beers and Minorco. He, with members of his family, including Mr. Slack, has indirect partial interests in approximately 7% of the outstanding shares of Minorco and 8% of the outstanding shares of Anglo American.

The following table shows, as to the Directors of the Corporation individually and the Directors and officers of the Corporation as a group, the equity securities of the Corporation and its subsidiaries and of Minorco, Anglo American and De Beers that were beneficially owned by them as of January 31, 1986.

Name	Title of class	Number of shares beneficially owned (1) (2)
Richard R. Davis	Inspiration Resources Common	32,240
Adrian M. Doull	Inspiration Resources Common	31,240
Jack A. Holmes	Anglo American Ordinary	29,000
J. Blair Howkins	Inspiration Resources Common	36,666
Robert H. Jones	Inspiration Resources Common	158
Allen T. Lambert	HBMS Special	6,819
J. Roger B. Phillimore	Anglo American Ordinary	1,500
	Minorco Ordinary	30,500
Reuben F. Richards	Inspiration Resources Common	154,865
Henry R. Slack	Inspiration Resources Common	250
	Anglo American Ordinary	1,000
Alan Sweatman	HBMS Special	56
Directors and officers as a group (20 persons)	Inspiration Resources Common	330,895
	HBMS Special	6,970
	HBMS Warrants	200
	Minorco Ordinary	30,500
	Anglo American Ordinary	31,500

(1) The numbers of shares shown as beneficially owned by Messrs. Davis, Doull, Howkins, and Richards and by all Directors and officers as a group include 31,240, 31,240, 35,932, 153,865 and 320,583 Inspiration Resources Common Shares, respectively, as to which such person or group had the right to acquire beneficial ownership pursuant to exercise, on or before April 1, 1986, of employee stock options.

(2) Except as otherwise noted herein, each Director or officer had sole voting and investment power over the shares shown as beneficially owned and each Director individually and the Directors and officers as a group owned less than one percent of the total issued and outstanding shares of each of the Corporation and its subsidiaries and Minorco, Anglo American and De Beers.

EXECUTIVE COMPENSATION

Cash Compensation

There is set forth below information concerning the cash compensation for services rendered in all capacities to the Corporation and its subsidiaries during the fiscal year ended December 31, 1985 paid to each of the five most highly-compensated executive officers of the Corporation and all executive officers as a group.

(A) Name of individual or number in group	(B) Capacities in which served	(C) Cash compensation
Reuben F. Richards	Chairman of the Board, President and Chief Executive Officer and Director of the Corporation	$ 422,200(1)
Richard R. Davis	Senior Vice President and General Counsel and Director of the Corporation	$ 237,733
Adrian M. Doull	Senior Vice President and Group Executive and Director of the Corporation	$ 247,400
J. Blair Howkins	Senior Vice President and Group Executive and Director of the Corporation	$ 220,600
M. Brian O'Shaughnessy	Senior Vice President, Marketing of the Corporation and President of Inspiration Resources Marketing Corporation	$ 166,267
All executive officers as a group (10 persons)		$1,918,739(1)

(1) Does not include deferred compensation credited for future payment under a deferred compensation agreement described below.

Other Compensation

During 1985, Messrs. Richards, Doull, Howkins and O'Shaughnessy received approximately $37,081, $29,598, $23,509 and $22,584, respectively, in the form of compensatory personal benefits such as additional life insurance, financial counseling and low-interest relocation mortgage loans. The Corporation's incremental cost with respect to personal benefits provided to other named executive officers and to all executive officers as a group is less than the minimum amounts required to be reported pursuant to Securities and Exchange Commission rules.

Compensation Pursuant to Plans

1983 Stock Option Plan. The 1983 Stock Option Plan authorizes the grant to key employees of the Corporation and its subsidiaries, selected by a Stock Option Committee of Directors who are not employees, of options intended to qualify as "incentive stock options" under the Internal Revenue Code and options which are not intended so to qualify. Under the 1983 Stock Option Plan, there may be granted incentive stock options to purchase, and nonqualified options to purchase, or stock appreciation rights to receive a maximum of 1,530,000 Common Shares. Under the 1983 Stock Option Plan (i) the option price per share may not be less than the fair market value at the time of grant, (ii) options generally may not be exercised prior to one year or more than 10 years from the date of grant, (iii) no option or stock appreciation right may be granted after August 2, 1988 and (iv) payment of the option price may be made in cash, Common Shares held for at least one year, or a combination thereof. Stock appreciation rights may be granted in conjunction with the grant of a nonqualified stock option, either at the time of the option grant or thereafter during its term in respect of all or part of such nonqualified stock option.

Incentive stock options to purchase Common Shares were granted in 1985 under the 1983 Stock Option Plan at the per share exercise price of $5.13 as follows: 229,000 shares to all executive officers as a group, including 25,000 to Mr. Davis, 30,000 to Mr. Doull, 25,000 to Dr. Howkins, 14,000 to Mr. O'Shaughnessy, and 60,000 to Mr. Richards; and 11,500 shares to all other Directors and officers as a group. Incentive stock options to purchase a total of 518,750

Common Shares were granted in 1985 under the 1983 Stock Option Plan to employees at the per share exercise price of $5.13.

Nonqualified stock options were granted in 1985 under the 1983 Stock Option Plan as follows: 4,000 shares to all executive officers as a group and to all Directors and officers as a group at an exercise price of $5.00 per share, with none to Messrs. Davis, Doull, Howkins, O'Shaughnessy and Richards; and 16,750 shares to employees at a weighted average exercise price of $5.11 per share.

1981 Share Option Plan of HBMS. The HBMS 1981 Share Option Plan provides for the grant to key employees of HBMS and its subsidiaries, selected by a Share Option Committee, of options to purchase up to 250,000 HBMS Special Shares (subject to adjustment). Options must be granted at not less than the fair market value. Generally, the maximum option term is five years, and options may not be exercised until six months from grant. All outstanding options are exercisable for Common Shares of the Corporation; no further grants of options will be made under the HBMS 1981 Share Option Plan. No options were granted under the HBMS 1981 Share Option Plan in 1985.

Savings and Investment Plan. The Corporation's Employees' Savings and Investment Plan has been in effect since January 1, 1984. With certain exceptions, all salaried employees of the Corporation (and those subsidiaries who have elected to participate) are eligible to participate commencing on the January 1 or July 1 following their respective dates of employment. As of December 31, 1985, approximately 1,330 employees were participating in the Savings and Investment Plan, out of the 2,176 employees who were eligible. Participants may elect to have up to 8% of their base salaries deferred as a contribution to the Savings and Investment Plan instead of being paid to them currently. Participants may also make additional after-tax contributions of up to 10% of base salary. The Corporation, subject to certain limitations, may contribute an amount to match a percentage of the participant's contributions, but not in excess of 6% of the participant's compensation. Within this limit, the Corporation currently matches 50% of the total participant's contribution. Contributions by the Corporation are invested in Inspiration Resources Common Shares. Contributions by the Corporation, if not previously forfeited, vest at the rate of 20% per year following the month for which such contributions were made, or earlier upon retirement, death or disability. Participants' contributions, which are always nonforfeitable, may be invested in a fixed income fund, a diversified equity fund and such other funds as are approved. Generally, distributions are made after a participant attains age 65, with distributions of participants' contributions payable in cash in a lump sum or in a single premium non-transferable annuity and distributions of the Corporation's contribution payable in Inspiration Resources Common Shares. In 1985, the Corporation made matching contributions, the unconditional vesting of which is not subject to future events, of $10,000, $6,700, $6,300, $6,150, $4,556 to the accounts of Messrs. Richards, Davis, Doull, Howkins and O'Shaughnessy, respectively, and $43,061 to the accounts of all executive officers as a group.

Executive Incentive Plan. The Corporation's Board of Directors adopted the Executive Incentive Plan, effective January 1, 1985. Generally, key executives of the Corporation and its subsidiaries are eligible to participate. Award opportunitites are based upon the achievement of established measurable performance objectives. Awards, which may amount to up to 100% of salary, are discretionary and are subject to the approval of the Personnel Committee. No awards under this Plan were made for 1985 to Messrs. Davis, Doull, Howkins, O'Shaughnessy and Richards and a total of $62,900 was awarded to all other executive officers as a group.

Deferred Compensation Agreement. The Corporation entered into a deferred compensation agreement with Mr. Richards that became effective January 1, 1983 and remains effective until he ceases to be a full-time employee, attains age 65 or becomes totally disabled. Pursuant to the agreement, as of the end of each fiscal quarter, the Corporation must credit an account for Mr. Richards with phantom stock units equal to the number of whole Common Shares purchasable with $50,000 at the market price on the last business day of such quarter. The account is subject to adjustment for stock or cash dividends on the Common Shares and for certain corporate changes (*e.g.*, stock splits, combinations and exchanges, mergers, recapitalizations, etc.). In no event may the value of the account at any date be less than the product of (i) $50,000 and (ii) the number of full fiscal quarters plus the portion of any partial fiscal quarter elapsed (the "minimum amount"). Mr. Richards is entitled to payment of phantom stock units credited to the account with respect to each fiscal year provided he remains a full-time employee for either five years thereafter or until his death, total disability or attainment of age 65. If his employment is otherwise terminated, the Board of Directors may require him to forfeit the preceding five years of credits to the account. Mr. Richards has no right to payments under the

agreement while employed; thereafter, the account is to be valued at the greater of (i) the minimum amount or (ii) the product of the number of his nonforfeited phantom stock units and the market price of the Common Shares. The Corporation may pay such amount to Mr. Richards, his designated beneficiary or his estate in cash, Common Shares or a combination, either as soon as practicable or over a period of 10 or fewer years, in equal quarterly installments (with interest). A total of 200,000 was credited to Mr. Richards's account for 1985.

Pension Plan. Domestic employees of the Corporation (including officers) are covered by the Corporation's Employees' Pension Plan (the "Pension Plan") effective January 1, 1984, a noncontributory defined benefit pension plan that is paid for entirely by the Corporation. The Pension Plan provides pension benefits upon retirement at age 65 or a reduced amount payable as early as age 55 or the completion of 10 years of service, whichever is later. The amount of normal retirement benefit, payable at age 65 as an annuity for the life of the employee only, is (i) 1¾% of the employee's annual average earnings during the three highest consecutive calendar years in the last 10 years of service multiplied by his years of credited service, minus (ii) 1¾% of the employee's Social Security benefit multiplied by his years of credited service to a maximum of 50%. Earnings covered under the Pension Plan include all salaries and wages paid to an employee, including bonuses, overtime, commissions and amounts the employee elects to defer under the Savings and Investment Plan. The following table shows the approximate gross annual retirement benefits payable at age 65 to those eligible employees under the Pension Plan at various levels of accrued service and compensation. The net benefits payable to employees will be the gross benefit reduced by the above-described percentage of the employee's primary social security benefit. The above benefits are subject to the limitations of section 415 of the Internal Revenue Code, which, in 1986, provided for a maximum annual payment of $90,000. Under the Excess Benefit Plan adopted by the Board of Directors of the Corporation in March 1986, the Corporation will supplement those benefits so that the amount the employee will receive will be equal to the amount that would have been received under the Pension Plan but for such limitations. The accrued years of service credited to Messrs. Richards, Doull, Howkins and O'Shaughnessy are 3, 11, 21 and 6, respectively. Mr. Davis's pension and other benefits based on length of service to the Corporation are computed under an arrangement that gives him years of service as if employed since March 1, 1967.

Final Three-Year Average Compensation	Accrued Years of Service				
	10	15	20	30	40
$ 50,000	$ 8,750	$ 13,125	$ 17,500	$ 26,250	$ 35,000
$100,000	17,500	26,250	35,000	52,500	70,000
$250,000	43,750	65,625	87,500	131,250	175,000
$500,000	87,500	131,250	175,000	262,500	350,000
$750,000	131,250	196,875	262,500	393,750	525,000

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In December 1985, the Corporation sold its interest in Danville Resources, Inc. ("Danville") and related assets to an indirectly wholly-owned subsidiary of Minorco for $215 million. At the time of the transaction, Messrs. Phillimore, Richards and Slack were directors and Messrs. Doull and Holmes were alternate directors of Minorco; Mr. Slack also was President of Minorco. In addition, Messrs. Davis, Doull and Richards and Stanley R. Rawn, Jr., a former Director of the Corporation, were directors or officers, or both, of Danville.

The Corporation provides administrative services to Danville, Minorco Canada Limited ("Mincan") and certain other North American affiliates of Minorco. In addition, the Corporation participates in joint venture exploration and development arrangements with Mincan in Canada.

The Corporation has outstanding loans to certain of its employees made in connection with their relocation. Generally, the loans are secured by a residential mortgage and have a term of 20 years and an interest rate of four percent. The largest amounts outstanding during 1985 and the amounts outstanding at January 31, 1986 for such loans to Directors and executive officers of the Corporation were: Mr. Doull — $382,108 and $366,852, respectively; Dr. Howkins — $290,003 and $278,712; Mr. O'Shaughnessy — $341,938 and $328,625; and Michael B. Smith, Vice President, Finance — $206,574 and $198,378.

Mr. Sweatman is a partner of the law firm of Thompson, Dorfman, Sweatman, which was retained by the Corporation during 1985.

Proposal 1

RATIFICATION OF SELECTION OF INDEPENDENT ACCOUNTANTS

The Board of Directors recommends that the stockholders ratify its selection of Price Waterhouse as independent accountants for the Corporation for 1986. The Board of Directors intends to introduce at the Annual Meeting the following resolution (designated herein as Proposal 1):

"RESOLVED, that selection by the Board of Directors of the Corporation of Price Waterhouse as independent accountants for the Corporation for 1986 be, and it hereby is, ratified."

It is expected that a member of Price Waterhouse will attend the Annual Meeting to make a statement if he desires to do so and to respond to any appropriate questions that may be asked by stockholders.

The affirmative vote of a majority of the combined votes cast by the holders of Common Shares, Class A Shares and Trust Shares voting thereon is necessary for the adoption of Proposal 1.

The Board of Directors recommends that you vote FOR Proposal 1.

SUBMISSION OF STOCKHOLDER PROPOSALS FOR 1987 ANNUAL MEETING

Proposals of stockholders intended to be submitted at the 1987 Annual Meeting of Stockholders must be received by the Corporation at its principal executive offices on or before December 6, 1986 to be eligible for inclusion in the Corporation's proxy statement and accompanying proxy for such meeting.

MISCELLANEOUS

The cost of the solicitation of proxies will be borne by the Corporation. In addition to the use of the mails, proxies may be solicited personally, or by telephone or by telegraph, by a few regular employees of the Corporation without additional compensation. The Corporation does not expect to pay any compensation for the solicitation of proxies but will reimburse brokers and other persons holding stock in their names, or in the names of nominees, at approved rates, for their expenses for sending proxy material to principals and obtaining their proxies.

A copy of the Corporation's 1985 annual report on Form 10-K filed with the Securities and Exchange Commission (without exhibits) will be made available to stockholders without charge upon written request to the Corporate Affairs Department, Inspiration Resources Corporation, 250 Park Avenue, New York, New York 10177.

April 7, 1986